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CONSUMER BANKRUPTCY STUDY

VOLUME 1

Consumers' Right to Bankruptcy Origins and Effects

1982

Krannert Graduate School of Management – Purdue University

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CONSUMER BANKRUPTCY STUDY

VOLUME I

Consumers' Right to Bankruptcy: Origins and Effects

CREDIT RESEARCH CENTER
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1982

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PREFACE

This study had been prepared by the staff of the Credit Research Center (CRC) in cooperation with Arthur D. Little, Inc. (ADL) and Opinion Research Corporation (ORC). The study was financed by the Coalition for Bankruptcy Reform, a group made up of a broad cross section of the consumer credit industry and associated organizations. About five-sixths of the funding was used to cover the costs of the field survey of consumers filing for Chapter 7 in 20 judicial districts in ten states. The remaining one-sixth was provided to CRC to help defray the incremental costs of preparing the study. The Credit Research Center is within the Krannert Graduate School of Management, Purdue University.

When a study is funded by an industry group, one must be prepared to hear charges of bias "in favor of" the industry. Such charges are, of course, based on a false premise that what is good for the industry is bad for consumers and vice versa. As we have shown in this and a number of earlier research studies, issues of public policy in the areas of consumer and mortgage credit involve trade-offs--more accurately, subsidies or wealth transfers--between one group of consumers and another. In this competitive market, one could not bias a study "in favor of" the credit industry *per se*, even if that were the objective.

Nonetheless, the research was structured in a manner to avoid potential bias, or the taint of bias. The questionnaire to be administered to debtors was prepared by three members of the CRC staff: Robert W. Johnson, Richard L. Peterson, and A. Charlene Sullivan. That and subsequent drafts were modified on the basis of suggestions from Dr. Edwin B. Cox and Blair C. Shick of ADL and Sandra M. Spies of ORC. Nobody from the credit industry or associated organizations saw the questionnaire until after it was in the field.

Edwin Cox and Blair Shick of ADL had prime responsibility for designing the sampling plan, both in the selection of the states and judicial districts and in the procedures to follow in selecting consumers to be interviewed. They also had the task of gaining the cooperation of the judges in each of the districts and that of the attorneys appearing in the courts. CRC staff had no contact with any of the many judges who cooperated in this research effort.

The interviewing of the debtors and the gathering of data from the petition was the sole responsibility of the staff of ORC. The important functions of coding and tabulating the data were entirely the duty of ORC staff. The raw data in the form of the questionnaires and petition data forms remain in Princeton with ORC, both to separate the data gathering and data analysis functions and to protect the privacy of the consumers interviewed.

The analysis of the data was the responsibility of the staff of CRC. ORC provided us with a computer tape encoded with the data on the 1,199 cases sampled. With the aid of able graduate research assistants (Swaminathan G. Badrinath and Dan A. Black) we prepared the tables provided in this and the following monograph, as well as many supplementary tables used in the analysis of the data. Members of the credit industry had no part in this analysis, nor did any of the CRC staff have a role in drafting or reviewing the proposed amendments to the Bankruptcy Act of 1978 proposed by the Coalition.

This study does not relate to changes in bankruptcy legislation introduced by the Bankruptcy Act of 1978. Instead, this study provides an empirical investigation and analysis of a public policy established in 1898 under the Bankruptcy Act passed in that year. At that time Congress decided that consumers could file for bankruptcy without regard to their ability to pay some portion of their debts out of future income. That policy has remained essentially unchanged since that time. Whether that is a sound policy in the very different credit markets of 1982 is a value judgment. The empirical data and analysis provided in this monograph provide a basis of reaching that value judgment.

We are greatly indebted for the highly professional and constructive contributions of Ed Cox and Blair Shick at ADL and Sandy Spies and Carole Hewitson of ORC. Not only are they experts at what they do, but they are delightful to work with. We also thank our secretarial staff--Marty Lynch, Cindy Overman and Betty Schoenhals for their skills and patience. Finally we thank each other for carefully reviewing and editing the numerous drafts of each of the chapters.

Robert W. Johnson
Richard L. Peterson
A. Charlene Sullivan

CHAPTER 1

BACKGROUND OF STUDY

Robert W. Johnson

This research addresses the public policy reflected in federal bankruptcy legislation that enables debtors to file for bankruptcy, regardless of their ability to repay their debts out of expected future income. This policy is not new. The privilege has been provided in federal legislation since 1898.

In the first section of this chapter the origins of bankruptcy are traced, including a brief legislative history of bankruptcy legislation in the United States. To illustrate an alernative legislative regimen, a current proposal to modify the policy regarding consumers' access to bankruptcy is cited in the next section. The third section reviews previous research concerning the policy and identifies the unique contributions provided by this study. The final section sets forth the key questions that must be addressed by empirical research to form a judgment regarding the desirability of a standard of admission to consumer bankruptcy.

I. Origins of Bankruptcy Legislation

A. Ancient Origins

Summerian documents dating from about 3000 B.C. reveal a use of credit based on grain and silver. The customs of the time were incorporated in the Code of Hammurabi (about 1800 B.C.). Interest on loans of grain and silver was limited, and all loan contracts had to be prepared and witnessed in the presence of an official. Credit was extended on the basis of property, real or personal--"wife, concubine, children, slaves, land, houses, utensils, credits, the door. But servitude for debt could not last more than three years. Later this time limit was extended." In addition, "Provision was made for court settlement if there were several unsatisfied creditors."[1]

Not only did ancient commercial custom allow for asset-based financing and court-supervised distribution of assets to creditors, but provision was also made for periodic discharge of debts, as noted in the study on usury being undertaken by John Houkes:[2]

> During the Old Babylonian period it was customary for the king to proclaim a general amnesty or act of "equity," in the Accadian language misharum, at the beginning of his reign and at intervals of seven years thereafter. This act resulted in the remission of debts and the return of pledged land to the original owners.
>
> The Edict of Ammisaduqu proclaimed about 1650 B.C. represents an example of such an act . . .
>
> 4: Whoever has given barley or silver to an Akkadian or an Amorite as an interest-bearing loan, or on the melqetum basis...and had a document executed--because the king has invoked the misharum for the land, his document is voided; ... he may not collect the barley or silver on the basis of his document.

Obviously, these debts were eliminated without considering the debtors' ability to repay them. It seems doubtful that much credit was granted in the period immediately preceding a misharum.

As an interesting aside, the Bankruptcy Act of 1978 permits the trustee to void certain transfers that occurred prior to filing for bankruptcy. Thus, payments received by a creditor during the 90 days prior to bankrutpcy are probably recoverable by the trustee for the estate [Section 547(b)(4)]. The *Edict of Ammisaduqu* dealt directly with the same issue: "He who does not make a refund of collections previously received in accordance with the royal decree shall die."[3]

Bankruptcy proceedings were designed for the benefit of creditors, rather than debtors. In essence, their purpose was to provide an orderly alternative to collection efforts by individual creditors. A debtor's assets were to be marshalled for joint and equitable distribution to creditors.

The derivations of the word "bankruptcy" evidence this principle. The term comes for Old Italian *banca* (bank, akin to the Old English *benc*, or bench) and *rotta* (broken). The latter word is derived from the Latin, *rupta*, feminine of *ruptus*, past participle of *rumpere*, to break.[4] The words "broken bench" relate to Roman law, under which creditors gathered the assets of a debtor and, following their distribution, broke his workbench or display table. The points to emphasize are that credit was business credit granted to merchants and craftsmen and that it was based on a debtor's assets, not future income. Once a debtor's merchandise or tools of trade were distributed to creditors and his workbench broken, there could be no expectation of future income.

Not only were bankruptcy proceedings designed for creditors, but debtors were regarded "... as defrauders and criminals. They were subjected to severe social and professional sanctions, including even a degrading form of dress."[5] Under ancient Roman law bankrupts were deprived of their civil rights. "In recent times, however, great efforts have been made to remove the disgrace attached to bankruptcy."[6] Thus, under The Bankruptcy Reform Act of 1978, consumers filing for Chapter 7 are called "debtors," not "bankrupts."

Because a debtor was usually a trader or merchant with his debts secured by assets, he typically had little incentive to seek bankruptcy. The proceedings would terminate the business and disgrace him personally. Thus, bankruptcy laws generally provided for the action to be brought by creditors. "Voluntary proceedings were not provided in England until 1844 and not in the United States until 1841."[7]

Finally, until fairly recent times, debtors were not granted a discharge of their unpaid debts following a bankruptcy proceeding. Under the English law (1542) bankrupts were regarded as criminals until they repaid all of their debts. It was not until 1705 that this position was softened, although very likely with the intent of benefiting creditors. If the debtor's liabilities were never discharged, he had every incentive to hide his assets. Discharge of debts was designed as a creditors' remedy to induce the debtor to reveal his assets in return for a final discharge of his obligations. As part of that process, he was also given a fresh start. In contrast to the laws of England, Commonwealth countries, and the United States, most countries in Europe and Latin America do not provide for the discharge of the unpaid portion of debts incurred prior to bankruptcy.

In summary, historical precedents had four key characteristics that influenced the development of bankruptcy legislation in the United States:

(1) Bankruptcy legislation was designed to protect creditors from each other and from debtors. It was a creditors' remedy, and creditors typically brought legal action to force a debtor into bankruptcy.

(2) The legislation was primarily for business debtors, since little consumer credit existed when the principles of law governing bankruptcy were developed.

(3) The legislation was based on a recognition that most debts would be secured by assets.

(4) For this last reason and because a failed business had no continuing life and income, no provision was made for payment of debts out of future income. Unpaid debts were not dischargeable until fairly recently, and even now principally in countries with legislation based on English law.

B. Bankruptcy Legislation in the United States

The first American Bankruptcy Act was passed in 1800, although it was repealed just three years later.[8] Consistent with its heritage, it applied only to insolvent traders, merchants and brokers and made no provision for voluntary bankruptcy. A second bankruptcy act lasted only from 1841 to 1843, and a third prevailed between 1867 and 1878. The short duration of these laws evidently stemmed from the difficulty of travelling to the court, the dislike of federal intrusion into private affairs, and the administrative expenses involved.

Following an extensive depression, Congress enacted the Bankruptcy Act of 1898. Contrary to the heritage of creditor-oriented legislation from England and ancient Rome, the 1898 legislation had five consumer-oriented features:[9]

(1) the availability of voluntary relief without regard to the nature and extent of the bankrupt's indebtedness,

(2) the allowability of property exemptions,

(3) the general availability of discharge,

(4) the limited exceptions to discharge, and

(5) exemption of bankrupts from civil process to collect dischargeable debts.

The Bankruptcy Act of 1898 was periodically amended over the years, with the most extensive adjustment being the Chandler Act in 1938. That amendment added Chapter XIII, a plan whereby a wage earner could arrange to repay all or some portion of his or her debts out of future income under the protection of the court.

The first sweeping change in the 1898 Act began in 1970, when Congress established the Commission on the Bankruptcy Laws of the United States to "study, analyze, evaluate, and recommend changes" in the Bankruptcy Act. After extensive hearings and analysis, the Commission published its report in 1973.[10] Following additional Congressional hearings, Congressional members Don Edwards and M. Caldwell Butler introduced H.R. 6 in the 95th Congress. After amendments, it was subsequently passed as H.R. 8200 and signed by President Carter on November 6, 1978, with an effective date for most sections as of October 1, 1979.

The Bankruptcy Code of 1978 offers troubled consumer debtors two basic choices in addition to seeking relief directly from creditors.

On the one hand, any debtor may file with a U.S. Bankruptcy Court a petition for bankruptcy relief under Chapter 7 of the Bankruptcy Act. As was true under the previous statute, there is no requirement that the debtor be having difficulty in paying his or her creditors, that liabilities exceed assets, or--important to this study--that expected future income be insufficient to repay a reasonable portion of existing obligations. As provided by the Bankruptcy Reform Act of 1978:

> Section 301. Voluntary cases
>
> A voluntary case under a chapter of this title is commenced by the filing with the bankruptcy court of a petition under such chapter by an entity that may be a debtor under such chapter. The commencement of a voluntary case under a chapter of this title constitutes an order for relief under such chapter.

Along with the petition, the debtor must file a list of his or her debts and creditors and a list of all property owned, including that which will be claimed as exempt under state law. On the date of filing the debtor is automatically in bankrutpcy, and creditors must immediately cease collection or foreclosure activities. Following a meeting of the creditors, at which they may question the debtor, the trustee takes possession of any nonexempt property, sells it, and (after deducting administrative costs) distributes the available funds to creditors. If there are no objections, the bankruptcy judge will then grant the debtor a discharge, relieving him or her of liability for the payment of most prepetition claims. The trustee may either sell the pledged property to pay off a mortgage or lien if the debtor has nonexempt equity in the property or abandon the property so that the secured creditor may claim it or work out arrangements with the debtor to continue to make payments. In practice, the debtor under Chapter 7 is usually relieved of all or most of the unsecured debts.

On the other hand, a debtor with regular income from such sources as wages, salary, or commissions may select Chapter 13. Filing of a petition for Chapter 13 triggers many of the same events as in the case of Chapter 7: an automatic stay of collection activities, a first meeting of creditors, and appointment of a trustee. Not only are creditors forbidden from trying to collect from the debtor, but they are also barred from any efforts to collect any consumer debts from any cosigners. The debtor must file a plan for the partial or complete repayment of debtors, typically over a period of three years. A plan is confirmed if the court finds that it has been proposed in good faith, that the amount to be distributed to creditors is not less than they would have paid under Chapter 7, and that the debtor will be able to make the payments contemplated by the plan. Plans have been approved providing for payments to creditors via the trustee ranging from one percent to 100 percent of unsecured debts. A number of debts that would not be discharged under Chapter 7 may be discharged under Chapter 13, such as "debts obtained through false financial statements, debts for fraud or larceny, governmental fines or penalties, and student loans."[11] A further important advantage of Chapter 13 "is for the debtor who has some nonexempt property because he doesn't have to surrender it in the Chapter 13 proceeding."[12]

The debtor may at any time withdraw from the Chapter 13 arrangement or convert to Chapter 7. The court may also modify the plan after confirmation. Should the debtor fail to make payments to the trustee as agreed, the trustee may seek to remove the debtor from the protection of Chapter 13 or seek a modification of the plan. If the debtor completes the payments under the Chapter 13 plan, he or she is discharged.

II. The Public Policy of Admitting Consumers to Bankruptcy

As indicated in the previous section, the policy of admitting consumers to Chapter 7, even though they had adequate expected income to repay their debts, was not an innovation of the Bankruptcy Reform Act of 1978. Voluntary relief and the general availability of discharge were features of the Bankruptcy Act of 1898.

Proposals to modify the policy established in 1898 regarding consumers' admission to bankruptcy debts have been introduced in the 97th Congress: S.2000 sponsored by Senators Dole, Heflin, Thurmond, Bauccus, Simpson, East, and DeConcini; and H.R. 4786 sponsored by Congressman Billy Lee Evans and over 200 other Representatives. Illustration of the key change in public policy addressed in this study is provided by S.2000:

> Sec. 2. Section 109 of title 11, United States Code is amended--
>
> "(c)(1) Subject to the provisions of paragraph (2) of this subsection, an individual may not be a debtor under chapter 7 of this title if such individual can pay a reasonable portion of his debts out of anticipated future income. For the purpose of this paragraph, the term--
>
> "(a) 'reasonable portion of debts' shall mean a substantial percentage of the total outstanding debt reflected upon the schedule of liabilities filed pursuant to section 521(1), excluding debts secured by a first mortgage or deed of trust on the debtor's principal residence:

> "(b) 'anticipated future income' shall mean such income, if any, that the debtor has a reasonable expectation of receiving, either from sources which--
>
> > "(i) are providing actual income at the time of the filing of the petition, or
> >
> > "(ii) will provide income commencing upon a date certain within twelve months following the filing of the petitions,
>
> and which is not needed by the debtor for the support of himself and his dependents.
>
> "(2) The provisions of this section shall not apply in any case where the court finds that its application would impose undue hardship upon the debtor and the debtor's dependents."

III. Previous Research

Very few studies have addressed the issue of bankrupt debtors' ability to repay debts from future income. The most comprehensive prior research was by Robert Dolphin, who obtained data from a questionnaire administered to 172 individuals filing for bankruptcy in 1963 in the U.S. District Court, Eastern District of Michigan.[13] To estimate their ability to repay debts from future income, he calculated two levels of income: adequate income and comfortable income. The first level was based on data developed by Robert Lampman for the Joint Economic Committee of Congress, and the second was based on Dolphin's experience as a resident of Flint, Michigan, where the court was located. Dolphin notes that "the Lampman figures are very similar to those used as a guide by Referee Bobier in the Flint court in considering an individual's ability to pay his debts under a Chapter XIII proceeding."[14]

Dolphin also adjusted for the size of family in developing his estimates of basic living expenses. For a family of four, he considered an adequate after-tax income in 1963 to be $2,763 and a comfortable after-tax income to be $3,600. (These data cannot be compared effectively with the data shown in Chapter 3 of this study because of the differences in tax adjustments and the elaborate calculation of basic living expenses in this study.)

On the basis of his calculations, Dolphin concluded[15]

> ---that 49 percent of the bankrupts from Genesee County during 1963 could have paid all of their debt within three years or less using the Chapter XIII proceedings and retained enough of their earnings to have an "adequate" standard of living... Using the writer's higher level of after tax income (the "comfortable" income), 28 percent of the bankrupts could have paid.

In a somewhat similar study based on 300 debtors' petitions during 1961-1964, Brosky concluded that[16]

> ...approximately one-fourth of the bankrupts would be strong prospects for a Chapter XIII or other out-of-court plan while another 40% of the bankrupts would perhaps bear further investigation toward determining the feasibility of a similar non-straight-bankruptcy plan.

Studies by Misbach and Reed reached very similar conclusions. In his study of Utah debtors, Misbach contended that 25 percent to 50 percent of the bankrupts could have repaid their debts from future income.[17] Reed concluded that one-fourth of debtors' income could be applied to future debts, but did not estimate what proportion of debtors could have repaid their debts in full from future income.[18]

Two recent studies based on data from bankruptcy petitions provide additional insight into the proportion of bankruptcy cases in which there appear to be affordable debts. A study of 140 cases in the 19th judicial district concluded that 68 percent could "have paid debts if properly motivated and assisted. They owed an average of $11,043 each and had incomes of $17,173 annually."[19]

Another study was made of bankruptcy cases in the Northern Division of the Eastern District of Michigan covering Chapters 7, 11, and 13 filings from October, 1979, to February, 1981. The researchers analyzed 417 Chapter 7 cases and 280 Chapter 11 cases. (Only 12.2 percent of the cases reported unsecured business debts of $500 or more.) The authors conclude: "In all probability, half of these cases could have been liquidated under a Chapter XIII-Wage Earner Plan."[20]

While there have been a number of other studies on consumer bankruptcy, they have not addressed and documented the debtors' ability to repay debts from future income. Nor have studies other than Dolphin's based their analyses on data from personal interviews in addition to the bankruptcy petition. Therefore, this research is the most comprehensive study made of consumer bankruptcies in terms of the numbers and geographical scope of the cases sampled and in terms of the amount of information gathered from both the petitions and personal interviews.

IV. Conclusion

This study examines the basic policy established in 1898 of permitting consumers to shed their debts through bankruptcy. While the policy has been confronted before, empirical data like those available in this study were not available, and the levels of consumer bankruptcies were much lower than at present. The unique data in this study permit examination of three basic sets of questions relevant to an appraisal of this policy:

(1) To what extent could consumers filing for bankruptcy have paid a reasonable portion of their debts out of anticipated future income? How large are the aggregate amounts of debts that might have been recoverable under a different legislative regimen?

(2) What wealth transfers or subsidies were involved under this legislative regimen? What are the characteristics of consumers who could not have paid their debts and those who apparently could have paid?

(3) How are the markets for consumer credit affected by the policy?

Answers to these questions are directly relevant to the debate on whether there should be a standard of admission to bankruptcy. The data are sterile. They do not represent a value judgment, but they provide a basis for reaching a value judgment.

FOOTNOTES

[1] Sidney Homer, A History of Interest Rates (New Brunswick: Rutgers University Press, 1963), p. 27.

[2] John M. Houkes, Manuscript in preparation, Purdue University.

[3] Ibid. Note also the provision for a misharum once every seven years, an interval provided in the Bankruptcy Act of 1978 in the United States and in Deuteronomy 15:1-- At the end of every seven years you shall grant a release. And this is the manner of the release: every creditor shall release what he has lent to his neighbor; he shall not exact it of his neighbor, his brother, because the Lord's release has been proclaimed. Of a foreigner you may exact it; but whatever of yours is with your brother your hand shall release."

[4] Webster's Third International Dictionary (Unabridged), p. 172.

[5] Encyclopedia Britannica, 2 (Chicago: Encyclopedia Britannica, Inc., 1982), p. 695.

[6] Ibid.

[7] Ibid., p. 695

[8] 9 Am Jur 2d, para. 2

[9] Frank R. Kennedy, "New Bankruptcy Act Impact on Consumer Credit," Business Lawyer 33 (February 1978), p. 1060.

[10] Report of the Commission on the Bankruptcy Laws of the United States. Washington, D.C.: U.S. Government Printing Office, 1973. 2 vols. Hereinafter referred to as Bankruptcy Commission Report. This Report also has an excellent review of the philosophy of the Bankruptcy Act, II, pp. 85-102

[11] The Compliance Handbook for Consumer Bankruptcy (Washington, D.C.: Capitol Reports, Inc., 1980), p. 30. These provisions may be modified by technical amendments.

FOOTNOTES (cont'd)

[12] Vern Countryman, "Legal Relief: Straight Bankruptcy and Wage Earner Plans," *Business Lawyer* 26 (January 1971), p. 939.
Richard E. Poulos, referee in Bankruptcy, Portland, Maine, has listed the benefits of a wage earner plan (Chapter 13 under the Bankruptcy Act of 1978) as follows:

1. An extension of some 3 years for payment of debts....
2. No wage attachments or repossessions are permitted....
3. Elimination of all interest and finance charges on all claims classified as unsecured, as determined by the court....
4. Determination of all disputed claims under control and supervision of the trustee and the court....
5. Consolidation of payments to central agency--trustee--where detailed records, open to interested persons, are maintained.
6. Flexibility of plan to allow for suspension and reductions of payments as permitted by the court after notice to creditors.
7. Supervision of purchases of necessities under program geared to avoid further accumulation of debts.
8. Discharge of all debts upon completion of the plan.
9 The moderate cost of this program....

House Hearings, 1967, p. 87.

Wage Earner Plans Under the Bankruptcy Act, Hearings before Subcommittee No. 4 of the Committee on the Judiciary, House of Representatives, 90th Cong., 1st Sess. on H.R. 1057 and H.R. 5771, May 24 and 25, 1967. Washington, D.C.: U.S. Government Printing Office, 1967, p. 87. Hereinafter cited as House Hearings, 1967.

[13] Robert Dolphin, Jr., *An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy*. East Lansing, MI: Bureau of Business and Economic Research, Michigan State University, 1965.

[14] *Ibid*., p. 98.

[15] *Ibid*.

[16] John J. Brosky, *A Study of Bankrutpcy in the Seattle Metropolitan Area*. Seattle: Retail Credit Association of Seattle, 1965, p. 68.

[17] Grant L. Misbach, *Personal Bankruptcy in the United States and Utah*. Salt Lake City: University of Utah Press, 1964.

[18] Edward W. Reed, *Personal Bankruptcies in Oregon*. Eugene, Ore: University of Oregon Press, 1967.

FOOTNOTES (cont'd)

[19] Family Debt Counselors of Greater Baton Rouge, Inc., "Limited Study of Bankruptcy Filings 19th Judicial District." The study covers cases filed from June 17 to August 29, 1980 and from December 31, 1980 through February 27, 1981. Interestingly, as will be seen in Exhibit 3-8 of this study, among petitioners who could repay at least 100 percent of their nonmortgage debts over five years, the average nonmortgage, nonbusiness debt was $11,945 and the average taxable income was $17,059, figures very close to that reported in the Louisiana study.

[20] Credit Bureau of Saginaw, Community Services, "An Analysis of Chapter Seven and Eleven Bankruptcies Filed in the Northern Division of Eastern District of Michigan from October 1979 to February 1981," p. 34.

CHAPTER 2

SAMPLING DESIGN AND INTERVIEW PROCEDURES

Blair Shick, Esq.*

The data for the research were drawn from personal interview responses of 1,199 Chapter 7 individual (nonbusiness) bankruptcy petitioners. Related data bases included information from the petitions filed by those interviewed, from the credit reports of interviews who authorized their release, and from the petitions of those who declined the request to participate in the interview.

The survey base consisted of approximately sixty petitioners from each of 20 federal judicial districts. To establish this sample, two judicial districts were selected from each of ten states. The petitioners interviewed were selected from the examination calendars for 91 different hearing sites under the jurisdiction of 47 different bankruptcy courts within the 20 districts.

This chapter describes the criteria used for the sampling design and the procedures followed in preparation and execution of the interview program and in establishment of the related data bases.

I. Basis for Selection of States and Judicial Districts

A major objective of the research was to compare and contrast the characteristics of bankruptcies among states with differing levels of exempt property--property that the debtor is allowed to retain without being sold to satisfy debts. This led to a search for states with differing exempt property laws. Another objective was to assess evidence of differences among bankruptcies within a given state.

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A. States with Two or More Federal Judicial Districts

The federal judicial system is organized in units of judicial districts. Every district is confined to a single state. In some states the judicial district comprises the entire state. Other states have more than one district, each covering a different geographic area in the state. California, New York and Texas, for example, have four federal judicial districts each. Each district has a single U.S. District Court.

The bankruptcy courts are separate departments of the U.S. District Court, but will become adjuncts April 1, 1984. Bankruptcy-related data are collected and reported by the entire district. In fact, the administration of the bankruptcy system is somewhat more decentralized. Bankruptcy Judges[1] and the related clerical staff maintain separate jurisdictions within districts, organized in terms of counties or parishes, that are responsible for the conduct of the bankruptcy proceedings in that area. However, the availability of uniform data for each district argued for the organization of the research design along existing district lines.

Thus, to provide the opportunity to test for differences in bankruptcy profiles within a state, it was determined that only states with two or more districts would be included in the sampling base. Two districts were to be selected in each of ten states with 60 interviews to be conducted in each district, for a total of 120 per state.

B. Differences in Exempt Property Law

Prior to the 1978 revision of the bankruptcy laws, the determination of the property to be exempt in bankruptcy was governed by state law only. The new Bankruptcy Code established a set of federal standards for exempt property and gave the bankrupt petitioner the option to select either state or federal exemptions standards to govern his or her property in bankruptcy. However, Section 522(b)(1) of the new Code also allowed a state to restrict its citizens to the use of state exempt property standards by legislation specifically denying authorization to use the federal standards. Since the federal standards were perceived to be higher or different from local standards of perceived need in one respect or another,[2] some 15 states had enacted legislation of this kind effective on or about January 1, 1981 (Exhibit 2-1).

EXHIBIT 2-1

STATES WITH EXCLUSIVE EXEMPT PROPERTY STANDARDS*

Alabama	Indiana	Ohio
Arizona	Kansas	South Dakota
Florida	Kentucky	Tennessee
Georgia	Louisiana	Virginia
Illinois	Nebraska	Wyoming

*Effective on or before January 1, 1981.

The existence of 15 states with exempt property standards independent of the federal law provided the opportunity to isolate a group of these states for comparision with states where petitioners had the option to select the federal or higher state standards. The decision was to constitute the ten-state sample with five low-exemption and five high-exemption states.

1. Selection of low-exemption states

The legislation of the 15 states listed in Exhibit 2-1--those which had effective laws to deny the use of federal exemptions--was examined to assure that their exempt property standards were in fact lower than those in the Bankruptcy Code. A few states, e.g., Arizona, Florida, and Kansas, were eliminated since their homestead exemptions were much higher than the federal, even though their personal property standards were comparable or lower.

The states remaining with low-exempt property standards were then tested against the criterion established calling for two or more judicial districts. In turn, the makeup of each district was analyzed, together with the data on bankruptcy filings in the prior year (July 1, 1979 through June 30, 1980) to assure that adequate numbers of petitioners could be expected to meet the target of 60 interviews within an approximate three-month period. Through this process, the states and districts indicated in Exhibit 2-2 were selected as the sampling base for low-exemption states where interviews were to be conducted.

2. Selection of high-exemption states

The next task was to select five other states where at least federal exempt property standards were applicable. Inquiry with lawyers knowledgeable in personal bankruptcy confirmed that no single state could be identified as having standards that would be consistently higher in all property categories than those in the new Bankruptcy Code. California and Texas were identified as states that stood out as having high standards for particularly important property such as residential or household property. This left a range of choices for other states in the high-exemption component of the survey sample.

A major concern in the selection process was to assure that both the economic base and the urban/rural mix of the states and districts selected were substantially similar to that for the low-exemption states. In addition, there was the criterion that two judicial districts be included in each state and that adequate volumes of bankruptcies exist to yield the necessary interviews. The analysis resulted in the selection of the states and districts listed in Exhibit 2-3 as the high-exemption component of the survey base.

II. Field Investigation And Preparation

A. Arrangement for Personal Interviews

Experience with individual survey techniques indicates that spontaneity and thoroughness of response are best achieved by personal interviews conducted in the context of the event or circumstances that are the subject of the research. This criterion indicated that a personal interview should be administered at some time during the bankruptcy process--subsequent to the petition filing, but prior to the final discharge. The optimal time seemed to be in the context of a court proceeding, when the subject matter was fresh in the mind of the respondent. In the average case, this would also mean the respondent's attorney might be present--a fact that would lend comfort to the respondent during the interview process.

EXHIBIT 2-2

LOW-EXEMPTION STATES IN SURVEY BASE

State	Exempt Property Standards	Districts
Georgia	$200 in each household item; $5,000 homestead (head of household only)	Northern Middle
Illinois	$1,000 total in personal property; $10,000 homestead (one spouse only)	Northern Central
Louisiana	Specified furniture only; $15,000 homestead (one spouse only)	Eastern Western
Ohio	$200 in each household item; $5,000 homestead (both may claim)	Northern Southern
Virginia	$3,500 total in personal property $5,000 homestead (one spouse only)	Eastern Western

EXHIBIT 2-3

HIGH EXEMPTION STATES IN SURVEY BASE

State	Districts
California	Northern Central
New York	Northern Western
Pennsylvania	Middle Western
Texas	Northern Western
Wisconsin	Eastern Western

B. The 341 Examination

Under the new Bankruptcy Code, the average consumer Chapter 7 petitioner makes two in-court appearances after the filing of the petition. The first is mandated by Section 341 of the Code, which requires a meeting of creditors where the debtor is required to appear and be examined under oath.[3] The court is not permitted to attend this hearing, which is administered by a bankruptcy trustee or a U.S. Trustee in certain districts. In the typical case, a trustee appointed by a court examines the debtor who, in turn, can be questioned by the creditors.

The second appearance is the discharge or final hearing which, for most purposes, mark the termination of the Chapter 7 bankruptcy proceeding. This hearing is presided over by the court (the bankruptcy Judge). But, due to the rapidly increasing numbers of bankruptcy cases, many Judges had abandoned the notion of individualized hearings and were using a group proceeding, consisting of a number of debtors scheduled to appear simultaneously. This meant that intercept interviews would be difficult to administer at that time. In addition, it was considered that the psychological effect of the finality of the discharge might bias interview responses at this time.

Thus, it was determined that the 341 examination period presented the best opportunity to conduct the interview.

C. Preinterview Contacts and Data Analysis

A mailing summarizing the research project was forwarded to each bankruptcy Judge in the states and districts selected for the survey base (Appendix A). This was followed by phone contacts to the chief bankruptcy Judge[4] in each district to arrange personal interviews with the court and appropriate representatives of the clerk's office. In most cases, personal contacts were made with the senior bankruptcy Judge assigned to different geographic areas within the districts. Personal arrangements were required by the considerable variation in administration and scheduling of the 341 examinations in the different areas.

The purpose of the visits was to acquaint the different judges with the study, to learn scheduling practices in the different areas, to inspect the hearing sites used for suitability for interviews, to obtain data on the numbers of petitions and hearings in prior reporting periods, and to arrange for advance communication to attorneys and trustees concerning the research and interview program.

The case load experience in the prior year was used to assign interview quotas for each hearing location. For example, if one geographic area within the district had jurisdiction over one-third of the Chapter 7 petitioners in the prior year, that area was scheduled to produce 20 of the 60 interviews administered in that district. The interview schedule was further broken down _pro rata_ where two or more hearing sites (for residents of designated counties) were regularly used within the same area. The intent was to obtain representation in the survey base that was proportional to the actual experience district-wide.

III. The Interview Process

A. Pretest of Questionnaire

During the planning stages, a survey instrument was drafted and edited by the different members of the research team. A testing exercise was conducted in the bankruptcy court of Judge Ralph H. Kelly. Chattanooga, in the Eastern District of Tennessee. The draft questionnaire was administered to 20 Chapter 7 petitioners by research team members and professional interviewers. Based on the experience, appropriate revisions were made. A copy of the questionnaire is reprinted in Appendix A. The estimated completion time for the interview was 20 to 22 minutes.

B. Period of Interviews

The interviews were conducted during the period of May 20 through August 2, 1981. Because of variations in the scheduling frequency of 341 examinations--due to case load and geography--the 60 interviews were completed in some districts before those in others. In general, the bulk of the interviews was administered during June and July.

C. Interview Procedure

All of the 1,199 interviews were conducted by professional interviewers who were residents of the state or district in which the interviews were administered. Over 90 percent of the interviews were conducted at the site of the 341 examination location. Most were administered after the respondents were finished with their formal examination. In some cases, the interviews took place in the same hour but prior to the examination. The interviewer contacted petitioners individually in order to introduce the research program and seek the cooperation to participate in the interview. Attorneys accompanying the petitioner were extended the opportunity to examine the questionnaire and to be present during the interview. In 144 instances, the attorneys were present. If a person declined to participate, the next petitioner scheduled for examination was approached. Altogether, there were 1,050 refusals to the request for the participation in the interview.

A total of 106 interviews were administered in person at locations other than the hearing site--usually in the petitioner's home. Those interviews were all after the 341 examination. The off-site interview procedure was adopted at the request of bankruptcy Judges who were concerned that any on-site arrangement gave an appearance of court sanction or sponsorship. The procedure was to telephone the petitioner and make arrangements for the personal administration of the interview at a convenient location.

D. Selection of Interview Respondents

The bankruptcy petitioners requested to participate in the interview were selected on the basis of strict hourly and daily quotas established for each 341 examination site. As a general rule, examinations are scheduled on the basis of six to eight petitioners each hour. Depending on the volume of cases for a particular hearing site, the calendar might run anywhere from two to six hours per day.

A maximum of two interviews per hour was established, with the interviews to continue on a given day until the daily quota was reached. The daily quota was determined by comparing the number of petitioners typically scheduled in a day with the overall quota for interviews from that particular site. To illustrate this process, assume a 341 examination location that represented one-third of the Chapter 7 individual bankruptcy petitions heard in the district in the prior judicial year; 20 of the 60 interviews for the district were planned to be conducted at that location. If examinations were scheduled twice monthly at that location--on a half-day basis with an average of 18 petitioners scheduled over a three-hour period--a daily quota of seven interviews was established. The interviews were then administered during the first three successive examination dates scheduled for the particular location following the May 20 start day.

If the first two petitioners contacted in a scheduled hour agreed to participate, the hourly maximum of two interviews was reached and no more interviews were requested of petitioners scheduled for that hour. If an hourly quota was not reached, the daily quota was reduced by that amount and the shortfall in the target established for that particular hearing location was reached by interview(s) conducted during the next scheduled examination date following those planned to fulfill the target. This same procedure was used for selection of participants where off-site interviews were conducted.

IV. Other Data Bases

A. Data From Petitioners

After the interviews were completed, the interviewers obtained the petitions filed with the court by each person requested to participate in the interview. The petitions are required to be filed to commence a bankruptcy proceeding and contain information on assets, property declared as exempt, debts, creditors, and the like. Certain data elements were removed from each petition, coded and entered into the data bases established from the interview responses. A copy of a petition code form is shown in Appendix B.

The petitions copied included those for persons who declined to be interviewed. The same data elements were removed from these petitions. The objective was to establish a framework for comparison between those who agreed to be interviewed and those who did not.

B. Credit Report

A final set of data collected for the research analysis included that from the credit reports of the petitioners who participated in the interview and authorized the release of their credit report. Authorization to obtain a copy of the report was requested at the end of each interview. The form for the authorization is in the questionnaire in Appendix A. Altogether, 912 of the 1,199 interview respondents provided the authorization requested.

FOOTNOTES

[1] Due to the highly technical nature of bankruptcy, a specialized judiciary is maintained. Bankruptcy Judges are separate from the U.S. District Judges. They are appointed by the President, with the advice and consent of the Senate, and serve a term of 14 years. See 28, U.S.C.A. Sections 151-153.

[2] The Bankruptcy Code exempts, among other property, up to $7,500 in residential property, up to $1,200 in a motor vehicle, up to $200 in any particular item of household goods, clothing and noncommercial animals,up to $500 in personal jewelry, unmatured life insurance values, health aids, and up to $400 (plus any unused amount in the residential property exemption) in any property. See 11 U.S.C.A. Section 522(d).

[3] See 11 U.S.C.A. Sections 341 and 343.

[4] The bankruptcy Judge with seniority in commission in active service, 28 U.S.C.A. Section 155.

CHAPTER 3

BANKRUPT DEBTORS' ABILITY TO REPAY DEBTS

Richard L. Peterson*

I. Overview

The major objective of this chapter is to determine the proportion of their debts that consumers who had filed for Chapter 7 could have repaid out of future income. Estimates are provided to show the percentage of consumers who could have repaid all or a major portion of their nonmortgage debts out of future income. The percentage of consumers who could have repaid their debts out of nonexempt asset holdings is also calculated. In making calculations of consumers' ability to repay out of income, it is assumed that debtors would retain their present income level, keep their current residences, and repay their debts out of income remaining after providing for taxes, housing and utility expenses, necessary child care, alimony (when applicable), extraordinary medical care or child support expenses, and basic (nonhousing) living expenses.

The chapter is organized as follows. Section II presents data on the income and employment status of debtors' who filed for relief under Chapter 7 of the U.S. Bankruptcy Code. It also explains how after-tax income was calculated from information provided by the debtors. Section III explains how individual debtors' "basic living expenses" were estimated. Section IV then shows how income available to repay debts was calculated, while section V presents tables that show (1) the percentage of bankrupt debtors who could have used their available income to repay their debts, other than mortgage and business debts, in full, over different periods of time and (2) the percentages of their total debts that individual debtors could have liquidated at different points in time. Section V also looks at the income and ethnic characteristics of those who could or could not have repaid their debts. Finally, section VI analyzes consumers' abilities to repay debts out of assets rather than income and section VII summarizes the major findings of the chapter. Following section VII, the Appendix uses data obtained from bankruptcy petitions to compare asset, income and debt characteristics of both respondents and nonrespondents to the bankruptcy survey.

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*This chapter was prepared with the assistance of D. A. Black and S. Badrinath. Robert W. Johnson provided many helpful suggestions.

II. Computation of After-Tax Income

A. Present and Expected Income

Several sources of income data were available in this study. The primary source was data obtained from respondents' answers to the set of questions presented in Exhibit 3-1. The secondary source of data on income was the bankruptcy petition. All people who file for bankruptcy are required to report their income for each of the two previous years on the bankruptcy petition.

Additional information was also obtained from all respondents on their present employment status, their employment status in the previous 12 months, and their expected level of income at year-end. That information is summarized in Exhibit 3-2.

The data presented in Exhibit 3-2 indicate that the majority of the bankruptcy filings were made by petitioners who were fully employed and had been fully employed for the previous year. Furthermore, the vast majority expected their income either to increase or to remain the same for at least the next six months. Based on their stable employment and optimistic income expectations, we felt it was reasonable to expect that most petitioners' current income levels would be maintained in the future.

EXHIBIT 3-1

QUESTIONS RELATING TO TAXABLE AND NONTAXABLE INCOME

45a. Have you received any food stamps in the past month?	1 YES 2 NO → SKIP TO Q. 46 x y
IF "YES", ASK: 45b. What was the total value of the food stamps you received last month?	$________ 0 DON'T KNOW x y
46. How much was your family's total income last month from nontaxable sources, such as social security, child support payments, unemployment or workmen's compensation, and welfare? (IF RESPONDENT IS NOT SURE, ASK FOR BEST ESTIMATE.)	$________ 0 NONE 9 DON'T KNOW x y
47. And, how much was your total family income before taxes from all taxable sources last month? (IF RESPONDENT IS NOT SURE, ASK FOR BEST ESTIMATE).	$________ 0 NONE 9 DON'T KNOW x y
48. By December of this year, how likely is it that your total monthly income from all sources will be higher or lower than it was last month? Would you say that it will definitely be higher, probably be higher, probably be lower, definitely be lower, or will it be about the same?	1 DEFINITELY HIGHER 2 PROBABLY HIGHER 3 PROBABLY LOWER 4 DEFINITELY LOWER 5 ABOUT THE SAME 6 DON'T KNOW x y
IF "HIGHER" OR "LOWER" ON Q. 48, ASK: 49. Do you expect that (increase) (decrease) will be 10% or less or will it be over 10%?	1 10% OR LESS 2 OVER 10% 3 DON'T KNOW x y

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SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-2

EMPLOYMENT STATUS, RECENT EMPLOYMENT STATUS, AND EXPECTED FUTURE INCOME OF SURVEY RESPONDENTS

I. Full-Time Employment Status: By Petition

Type of Petition		One Person Employed Full-Time	Two People Employed Full-Time	At Least One Person Employed Full-Time
Single filing (626)		471 (75.2%)	XXXX	471 (75.2%)
Joint filing (571)		345 (60.4%)	124 (21.7%)	469 (82.1%)
Unknown (2)				2 (100%)
Total	1,199	816	124	942 (78.6%)

II. Full-Time Workers Employed Continuously for the Previous Year

If One Person Employed Full-Time	If Two People Employed Full-Time	Total
596 (73%)	106 (85.5%)	708 (76.6%)

Thus, over 76.6 percent of full-time workers (58.5 percent of the sample of 1,199) had been employed continuously for the previous year.

III. Employment Status: By Sex of Respondent (percentage distribution)

	Male	Female
Employed full-time	72%	41%
Employed part-time	5	11
Not employed	20	45
No answer	3	3

IV. Employment Status for Previous 12 Months (percentage distribution)

	Male	Female
No answer	4%	12%
None	8	25
1-5 months	13	12
6-8 months	14	9
9-11 months	12	10
All 12 months*	49	32

*Males employed all 12 months totaled 489, and females totaled 322.

EXHIBIT 3-2--Continued

V. Expected Income at Year-End will be

Definitely higher	24%
Probably higher	26
Same	35
Don't know	5
Probably lower	6
Definitely lower	4

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

Further, we felt that such an assumption might well be conservative since a large proportion (50%) of the respondents expected that their incomes would soon rise. Consequently, we based our estimates of petitioners' future income levels on their present income levels.

B. Computation of After-Tax Income

Calculations of after-tax income were ordinarily made from data on income, dependents, alimony payments, child care expenses and marital status that were provided on the questionnaire. In addition, data on property taxes and medical payments were used in tax calculations if the sum of these two items exceeded the standard deduction. Most tax calculations assumed that the respondent took the standard deduction and earned income subject to social security taxes. Insofar as respondents were able to itemize deductions, their Federal tax liability was overstated and their after-tax income was understated. Assumptions regarding applicable tax tables and the portion of income subject to social security tax also had the effect of overstating Federal taxes and understating after-tax income. Thus, in general, most estimates of after-tax income were too low, if only Federal taxes were considered. However, since state income tax liabilities were not taken into account, on balance, after-tax income estimates were deemed to be approximately correct.

The calculation of after-tax income required several steps: (1) determination of taxable income, (2) determination of social security taxes, (3) determination of marital status and appropriate tax tables, (4) adjustments for alimony and, if applicable, deductible medical and property tax outlays, (5) calculation of Federal tax liabilities, (6) adjustments for child care credits, (7) adjustments in income to allow for alimony payments, social security taxes, Federal taxes net of child care credits, and the receipt of nontaxable income flows.

After-tax income is the amount of income remaining after each of these adjustments has been made. Each adjustment is explained in more detail below.

1. Determination of Taxable Income

Whenever possible, present taxable income levels were estimated from information obtained in response to question 47 (Exhibit 3-1). That figure was multiplied by 12 to obtain an estimate of their annual taxable income, and was compared to previous year's income reported on the petition. Unless there were wide discrepancies in the two figures, the questionnaire data were used as an estimate of taxable annual income.

However, in some cases respondents did not provide such data, or provided estimates of their income that diverged widely from the previous years' income levels they had reported on their petition. If respondents did not answer question 47 ("none" and "zero" were both considered answers), 1980 income (as reported on the petition) was used as an estimate of taxable income. Also, if income data reported on the questionnaire exceeded 1980 income levels by 33 percent or more, 1980 petition data were used to estimate taxable income. The 33 percent standard was used to eliminate reporting errors. It may also have eliminated some truly large income increases. For instance, a spouse may have taken a new job. However, such errors were deemed unavoidable since our objective was to prevent overestimates of income from being made.

Finally, if the petition data exceeded the income level reported on the questionnaire by more than 33 percent, a possible income understatement was flagged. Such understatements could have reflected either reporting errors or the reporting of take-home pay rather than taxable income. Because of the 33 percent criterion, the erroneous reporting of take-home pay frequently would not be caught (e.g., it would not be caught if less than 33 percent of the paycheck were withheld). However, the 33 percent allowance was necessary in case hours worked declined (due to less overtime or other factors).

When a 33 percent or greater drop in income was flagged, additional checks were made to see if there was some reason for the large income decline. These checks consisted of a scan of the reasons reported for filing bankruptcy (see Exhibit 3-3).

If the respondent cited a personal, employment, or business-related problem as a reason for filing, the reported decline in income was assumed to be accurate and questionnaire data were used to estimate taxable income. If the respondent reported only credit-related reasons for bankruptcy, then it appeared unlikely that income had declined substantially. In that case, 1980 income data were used to estimate the respondents' taxable income.

In estimating taxable income, only conservative assumptions were made. Thus, no allowance was made for possible income growth, even when 1980 income data were used or respondents said their future income would definitely rise. Also, large increases in income were disallowed automatically while only implausible large decreases in income were

EXHIBIT 3-3

REASONS FOR FILING BANKRUPTCY

Reason Cited (Multiple Responses Allowed)	Percentage of Respondents Saying the Reason Was Important	One of the Most Important
I. Personal reasons		
A. Medical bills (doctors, hospitals)	43*	15
B. Marital problems (divorce, separation, alimony, child support)	28*	12
C. Natural disasters (floods, hurricanes)	2*	1
D. Death in the family	4*	1
E. Addiction or dependency (drugs, gambling, alcohol)	3*	1
II. Employment or business problems		
A. Cutback in hours worked	17*	5
B. Laid off or fired from work	27*	12
C. Own business failed	15*	7
D. Employer's business failed	5*	2
E. Unable to work due to accident/illness	21*	7
F. Lost second income	16*	4
III. Credit/financial problems		
A. Bought too much on credit	44	14
B. Credit was too easy to get	28	4
C. Unable to get creditors to extend loans or agree to different payment schedule	21	4
D. Creditors tried to collect their money	29	4
E. Sued by creditors	23	5
F. Wages actually garnished	13	4
G. Some property repossessed	10	1
H. Cosigned on loan that was not paid	6	1
I. Cost of living went up	45	8
J. Other(s)	19	9

*If any one of these reasons were cited as important factors in bankruptcy filings, large declines in income were taken as valid estimates of expected taxable income.

NOTE: Totals add to much more than 100 percent because of multiple responses.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

disallowed. Finally, many consumers may have reported take-home pay rather than taxable income. As a result it is likely that pretax income was understated in many cases. Respondents' taxable income averaged $10,409. In contrast respondents' average 1980 income, as reported on petitions, was $13,979.

2. Determination of Marital Status and Appropriate Tax Tables

The information provided by respondents on their marital status was used to determine the appropriate Federal income tax tables for calendar year 1980. In particular, single respondents were assumed to use tax table X, married respondents were assumed to use the version of tax table Y that applied to married couples filing jointly, and separated respondents were assumed to use the version of tax table Y that applied to married couples filing separately. Respondents who were divorced, widowed, or living as married were assumed to use tax table X unless they had dependents. If they had dependents they were assumed to use tax table Z for head of households. If the respondent's marital status was unknown, tax table X (for single persons) was used; if anything, that procedure would overstate their potential tax liabilities.

In general, the assignment of tax tables was made so tax liabilities would be overstated rather than understated if critical information was missing. In addition to people for whom marital status was unknown, possible overstatements were made for recent widows and widowers--who are eligible to use joint tax tables for several years--and for separated people who may have filed jointly rather than separately. Also, because 1980 tax tables were used and taxes were cut in 1981, some small overstatements of tax liabilities may have resulted from that source.

3. Adjustments for Alimony and Large Deductions

Monthly alimony payments reported on the questionnaire were multiplied by twelve and subtracted from taxable income. Also, to the extent that the sum of property tax payments plus medical expenses exceeded the standard deduction applicable to a person with the respondent's filing status, the excess deductions were also subtracted from taxable income.

4. Calculation of Federal Tax Liabilities

The number of dependents times $1,000 was also subtracted from taxable income for each respondent. Then the income tax liability was calculated by referencing the appropriate tax table (X, Y, Z, etc., as described previously). The tax tables automatically allowed each taxpayer to take the appropriate standard deduction. However, if a respondent were able to reduce his or her taxes by itemizing deductions, this procedure would overstate taxes and understate after-tax income.

Because the Federal tax law allows people to claim a tax credit for 20 percent of their child care expenses (up to a maximum credit of $400 per child for up to two children) estimates were made of the magnitude of those credits that each respondent could obtain. Those estimates were based upon the total number of children (one or more than one) claimed as dependents by the respondent as well as on 20 percent of the (annualized) amount of child care expenses that the respondent reported on the questionnaire.

The child care credit was used to offset all Federal income tax liabilities calculated (as previously described) from tax schedules X, Y, or Z. Net tax liabilities (insofar as they were positive) were then subtracted from taxable income to obtain preliminary estimates of after-tax income.

5. Adjustments to After-Tax Income

After-tax income was adjusted for social security taxes and for nontaxable income flows. Social security taxes were computed by taking 6.13 percent of the first $22,900 of taxable income. To the extent that taxable income was generated from exempt sources (such as dividends, interest, or other sources reported as income on the bankruptcy petition) or from governments or other employers exempt from social security, social security tax liabilities were overestimated. Nonetheless, because exempt sources could not be easily identified, all taxable income was deemed to be subject to social security taxes, and social security taxes, computed on that basis, were subtracted from income. The annual value of alimony payments was also subtracted from after-tax income. Finally, the annual value of any nontaxable income received by the respondent was added to after-tax income. In addition, for those people who received them, the annual value of food stamps was added to after-tax income.

The final after-tax income measure, then, included taxable income less Federal income taxes, less social security taxes, less alimony, plus nontaxable income, plus the annual value of food stamps. State income taxes, if applicable, were not computed since (1) it was extremely difficult to do so given wide variations in state laws and (2) there were many reasons to believe that Federal taxes were overestimated.

C. Example of After-Tax Income Calculations

The computation of after-tax income is illustrated for a hypothetical case in Exhibit 3-4, lines 1-10. Line one multiplies monthly income reported on the questionnaire by 12 to obtain annual income. In this case, since petition data and questionnaire data corresponded closely, no adjustment was required. Line two deducted Federal tax exemptions ($1,000/dependent) from taxable income to obtain line three. After determining from marital status data that the applicable tax schedule was schedule Y, and from specific data on medical expenses and property taxes that no extraordinary deductions were necessary, Federal tax liabilities were determined from schedule Y of the 1980 Federal Tncome Tax Tables. That schedule automatically grants the standard deduction to all taxpayers.

Because our hypothetical consumer had child care expenses, his or her taxes were reduced by the applicable child-care credit in line five, to determine the respondent's net Federal income tax liability, line six. Social security taxes were computed and added to total Federal tax liabilities in line seven. If applicable, alimony payments would be included with tax liabilities as an additional subtraction from income at this point. Federal tax liabilities (and, potentially, alimony) were then subtracted from pretax income to obtain after-tax income, line eight. Taxable income was then adjusted upward by adding in nontaxable income, such as workman's compensation or food stanps, in line nine, to obtain "adjusted family money income," line ten.

III. Calculation of Basic Living Expenses

A critical component in calculations of whether bankrupt debtors had sufficient income available to repay debts is the calculation of their basic living expense requirements. Their income must be sufficiently

EXHIBIT 3-4

SAMPLE CALCULATION OF AVAILABLE INCOME FOR NONFARM FAMILY OF FOUR

A. Income Available to Apply to Nonmortgage Debts After Covering Basic Living Expenses

1. Family money income before taxes (monthly taxable income, 1,450 x 12)	$17,400	$17,400
2. Less: Exemptions (4 x 1,000)	4,000	
3. Taxable income (line 3, Schedule TC) (Line 1 - Line 2)	13,400	
4. Income tax (Tax Rate Schedule Y) [$1,404 + .21(13,400-11,900)]	1,719	
5. Less: Dependent care credit	400	
6. Net Federal income tax (Line 4 - Line 5)	1,319	
7. Social security tax (.0613 x 17,400)	1,067	2,386
8. Family money income after taxes (Line 1 - Line 6 - Line 7)		15,014
9. Add: Non-taxable income (workmen's compensation) (75 x 12)		900
10. Adjusted family money income (Line 8 + Line 9)		15,914
11. Basic living expenses (BLE) for low-income families adjusted for number of dependents and differences in cost of living by region and metropolitan/non-metropolitan places of residence	9,236	
12. Proportion of BLE assigned to non-housing expenditures (food, clothing, transportation, services, etc.) (.74 x 9,236)	6,835	
13. Actual housing costs (Rent, 260 + Utilities, 70)x (12)	3,960	

EXHIBIT 3-4--Continued

14. After-tax basic living expenses (BLE) (Line 12 + Line 13)	10,795	
15. Add: Extraordinary expenses (Child care, 170 per mo.) x (12)	2,040	
16. Adjusted after-tax BLE (Line 14 + Line 15)		12,835
17. Adjusted income available to apply to non-mortgage debts (Line 10 - Line 16)		3,079

B. Income Available to Apply to Non-Mortgage Debts After Covering Basic Living Expenses Plus 20 Percent of Non-Housing Expenses

18. Adjusted family money income (Line 10)		$15,914
19. BLE for non-housing expenses (Line 12)	6,835	
20. Add: 20% for higher living standard .20 x 6,835	1,367	
21. Add: Actual housing costs (Line 13)	3,960	
22. Add: Extraordinary expenses (Line 15)	2,040	
23. Adjusted BLE (Line 19 + Line 20 + Line 21 + Line 22)		14,202
24. Adjusted income available to apply to non-mortgage and non-business debts (Line 18 - Line 23)		$ 1,712

high that they can retain their residence, meet key necessary expenditures, and live at the poverty level or modestly above it in other ways while they are repaying their debts.

The calculation of basic living expenses involves several key steps. They are: (1) calculating minimum income requirements for families with the same number of dependents, (2) adjusting that income for intertemporal and interregional variations in prices, (3) calculating present housing costs, (4) substituting present housing expenses for housing expenses implicit in the minimum income calculations, and (5) allowing for necessary child-care expenses, excess child support payments, or excess medical payments which add to basic income needs. These steps are discussed in detail below.

A. Calculation of Price-Adjusted Minimum Income Requirements

Basic living expense requirements (BLE) were calculated by using the number of the debtor's reported dependents, determined from the questionnaire, in conjunction with estimates of poverty threshold standards for families of different sizes, calculated by the Bureau of the Census.[1] Initially, each respondent was assigned a BLE that was consistent with the poverty threshold for a family of equal size. For instance, the average poverty threshold for a nonfarm family of four was $8,414 in 1980.[2]

At the time the data were collected, the most recent data on poverty thresholds applied to 1979. Thus, an upward adjustment was made in all BLE estimates to reflect changes that occurred in the consumer price index before the study was conducted. The adjustment (an increase of 24 percent in all estimates) reflected the increase in the Consumer Price Index that occurred between mid-1979 and the commencement of the survey (April 1981). This adjustment was deemed appropriate because the Bureau of the Census makes annual revisions in its poverty thresholds by adjusting them upward by the year-to-year change in the Consumer Price Index. Hence, this adjustment was similar to those made by the Bureau of the Census, except it used a slightly longer time period. After adjustment, the poverty threshold for a family of four was $9,159.

However, because the data from the Bureau of Labor Statistics (BLS) indicate that substantial differences exist in the cost of living applicable to different parts of the country, additional adjustments were made to allow for such differences. Regional cost-of-living adjustments were based on BLS data for 1979, which provided detailed comparisons of the relative costs of living applicable to low-income families living in different parts of the country.[3]

Three basic adjustments were made. First the BLE for each respondent who lived in a city with a population under 50,000 was multiplied by the price index applicable to such cities in the region in which he lived. For instance, the BLE of an individual who lived in a small city in California (the west) was adjusted upward by eight percent. The BLE of a respondent who lived in Georgia (the south) was adjusted downward by 11 percent. In Illinois (the northcentral), the nonmetropolitan adjustment was a negative three percent, while in New York (the northeast) the adjustment was a minus one percent. This adjustment was the only one made if the respondent did not live in a standard metropolitan statistical area (SMSA) with a population of 50,000 or more.

The second price adjustment applied only to respondents who lived in major metropolitan statistical areas. The BLS calculates individual price indexes for 24 major cities, several of which were included in our survey. By using information on each respondent's zip code provided on the bankruptcy petition, we were able to determine if the respondent lived in an SMSA for which specific price indexes were available. If the respondent lived in such a city, that city's price index was used to adjust the BLE rather than the nonmetropolitan index described in the preceding paragraph. For instance, the BLE of a respondent who lived in Atlanta, Georgia, was decreased by only eight percent, rather than by the 11 percent applicable to the nonmetropolitan south. Further, the BLE of a respondent who lived in Chicago was increased by two percent rather than reduced by three percent. These adjustments reflected the fact that it cost more to live in specific big cities than in nonmetropolitan areas, while still allowing for regional differentials in the cost of living.

The third adjustment was similar to the adjustment cited in the preceding paragraph, except that it applied to residents of cities for which no specific price index was available. In this case, zip code information was used to determine if the respondent lived in a standard metropolitan statistical area (with a population of 50,000 or more) for which no specific price data were available. If so, the metropolitan price index applicable to metropolitan areas in that region of the country was used to adjust the BLE rather than the nonmetropolitan index. Thus, the BLE of a debtor who lived in Macon, Georgia, was adjusted downward by 5.1 percent rather than by the 11 percent adjustment applicable to southern residents of nonmetropolitan areas. Similarly, the BLE of a resident of Rockford, Illinois was increased by three percent rather than lowered by three percent, as would be the case if the respondent lived in a small town in the northcentral region of the country.

These three adjustments, then, had the effect of relating respondents' BLE levels to differences in the cost of living in different regions of the country, specific cities, and metropolitan vs. nonmetropolitan places of residence. Overall, then, a respondent's BLE was based on family size and adjusted both for intertemporal price changes and for interregional and metropolitan-nonmetropolitan differences in the cost of living for low-income families (Exhibit 3-4, line 11).

B. Calculation of Present Housing Costs

Respondents to the survey were asked to provide information on their monthly rent, mortgage, and utility expenses (if applicable). In addition, homeowners were asked to provide information on their annual property tax and insurance liabilities. Explicit housing costs for renters were calculated by multiplying rent and any utility payments by 12 and summing (Exhibit 3-4, line 13). Explicit housing costs for homeowners were calculated by multiplying monthly mortgage and utility payments by 12 and summing those figures with their annual property tax and insurance obligations. This information was collected on the questionnaire.

C. Calculation of Housing-Adjusted Basic Living Expenses

Because required minimum income levels include an allowance for housing expenses, simply adding present housing costs to initially determined BLE levels would provide for a double housing allowance.

Thus, housing-adjusted BLE levels were calculated by adding present housing and utility costs to a fraction of the previously determined BLE.

The fraction used was 74 percent (or 100 percent minus 26 percent). This statistic was based on the fact that the Consumer Expenditure Survey: Interview Survey, 1972-73, conducted by the BLS, showed that shelter and utility expenses for low-income families accounted for at least 26 percent of the expenditures of relatively low income families (see Exhibit 3-5).[4]

The housing-adjusted basic living expense concept, then, assumed that the debtor would make all the mortgage, rent, tax, insurance and utility payments necessary to continue to live in his or her current residence and would spend an amount equal to or greater than government minimum income standards on all other needs (such as food, clothing, and medical expenses). Because all mortgage, rent, insurance, tax and utility payments related to the debtor's current housing were explicitly taken into account (Exhibit 3-4, line 13), an adjustment was made to the initial basic living expense figure (Exhibit 3-4, line 12) to eliminate implicit shelter and utility expenditure allowances. This adjustment was necessary to prevent double counting the costs of shelter.

D. Alternative Levels of Basic Living Expenses

The assumption that all respondents would live in their present abodes and retain sufficient income after repaying debts to spend at or slightly above government minimum standards for a family of like size provides little leeway for discretionary expenditures. To make sure that individuals would definitely have more income than allowed by the

EXHIBIT 3-5

HOUSING EXPENDITURE AS A PERCENTAGE OF TOTAL CONSUMPTION EXPENDITURES (1972-73)

Income Class	Shelter, Utility, Property Tax and Property Insurance as a Percentage of Consumption
Under $3,000	34.21%
$3,000 - $3,999	30.73
$4,000 - $4,999	28.83
$5,000 - $5,999	28.16
$6,000 - $6,999	26.71
$7,000 - $7,999	25.28
$8,000 - $9,999	25.30
$10,000 - $11,999	24.25
$12,000 - $14,999	24.00
$15,000 - $19,999	23.79
$20,000 - $24,999	22.78
$25,000 or more	23.77

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, Consumer Expenditure Survey: Interview Survey, 1972-73, Volume 1, U.S. Tables, Families Classified by 10 Family Characteristics, Bulletin 1997, Washington, D.C., 1978, Table 1.

government's minimum income threshold, several alternative levels of living standards were calculated. These adjustments added 10 and 20 percent of the nonhousing BLE allowances to the previously calculated basic living expense level (see Exhibit 3-4, line 12 and part B). Thus, these alternative minimal income levels assumed that the debtor could live in the same housing unit, pay utility bills and make expenditures on other items at a rate that was, alternatively, 10 or 20 percent above the government's minimum expenditure standard for a family with the same number of dependents.

E. Extraordinary Expense Allowances

Some individuals may have extraordinary expenses that raise their minimal income needs. These include such things as child care expenses that must be incurred so parents can work, child support expenses mandated by law, or excessive medical expenses. Adjustments made to the various basic living expense levels to allow for these possibilities are described below.

1. Child care expenses

The questionnaire asked respondents to record monthly child care expenses that were necessary so that the parents could work. Provided that no parent were unemployed, this value was multiplied by 12 and added to each previous estimate of basic living expenses. (See Exhibit 3-4, lines 15 and 22. When applicable, extraordinary child support and medical expenses would also be added at this point.)

2. Child support expenses

Child support expenses are mandated by law. Thus, such expenses must be made before other expenditures. However, child support costs are made in lieu of direct expenditures on child support, Hence, it would be incorrect to add child support costs to basic living expense estimates because the basic living expense estimates already have been adjusted for the number of dependents in a family. Consequently, only that portion of child support costs that exceeded "usual" dependency allowances was added to BLE estimates. Further, such child support expenses were added only if they were deemed to be extraordinarily large.

"Usual" child support expenses were calculated from government data on poverty thresholds. In 1979, poverty thresholds were approximately $1,300 higher if a family had one additional dependent. Adjusted to April 1981 prices, the $1,300 (when increased by 24 percent for price increases) corresponded to an annual dependency allowance of $1,612 per child. Only those annual child support expenses that exceeded $1,612 times the number of dependents under 17 were considered to exceed child support expenses already allowed in the government statistics. Further, excess child support expenses were only allowed if they exceeded twice that threshold.

The requirement that child support expenses exceed twice the governmental dependent allowance was imposed because it was recognized that not everyone spent the same amount on child support. Some might spend more than that allowed by government threshold income definitions while others might spend less. The average level of expenditures, then, reflects the fact that some people spend more on children and less on other goods, while others do the reverse. Thus, some variation in spending on dependents was considered to be "normal." Adjustment in required living expenses was not considered necessary in "normal" cases. However, if child support requirements were twice as great as those allowed by poverty level definitions, they were considered to be extraordinarily large.

Consequently, whenever questionnaire data indicated that a respondent spent twice as much per dependent on child support as was implied by poverty level definitions, the difference between those expenditures and the implicit dependency allowance was added to the respondents' basic living expense requirement. This adjustment had the effect of adding extraordinarily large child support requirements to minimum income requirements whenever the child support requirements appeared to be excessive.

3. Medical expenses

An adjustment in basic living expenses was also made to allow for "excess" medical expenses. This adjustment was made analogously to the excess child support adjustment. From questionnaire data, annual medical expenses were calculated. Those expenses were divided by the number of dependents and were compared to the per capita medical expense allowance in the BLS 1979 low-income cost-of-living computation--after that allowance was adjusted to current dollar figures by changes in medical care costs from 1979 to 1981.[5] If annual medical expenses were "extraordinarily" large (i.e., were twice as great as the average medical allowance per capita), the difference between actual medical expenses and those allowed (on a current value per capita basis) by the low income cost-of-living computation was added to the respondent's basic living expense requirements.

F. Summary

Each respondent's basic living expenses were calculated by adding his or her explicit housing costs to nonhousing expenditures calculated to (1) equal the government's minimum income standard, (2) exceed that standard by ten percent, and (3) exceed that standard by 20 percent. In addition, necessary child care expenses and excessive child support and medical care expenses were added to each respondent's basic living expenses. All data necessary to make these calculations were obtained from the questionnaire.

IV. Income Available to Repay Debts

After-tax income that exceeded a respondent's basic living expenses was assumed to be available to repay debts. A different level of income available to repay debts was calculated for each alternative level of basic living expenses considered.

If after-tax income were understated, income available to repay debts would also be understated. Similarly, if minimal income needs were overstated, income available to repay debts would be understated. Conversely, any overstatements of after-tax income or any understatements of basic living expenses would cause estimates of income available to repay debts to be too high.

Because a conscious effort was made to estimate income conservatively, income available to repay debts was understated in many cases. Also, insofar as an individual's basic living expenses include an allowance for the purchase of automobiles or services provided by other durable goods, that individual's capacity to repay the principal on debts acquired to purchase durable goods would be understated. Part of the basic living allowance for auto or household expenses could be allocated to amortize debts used to acquire durable items.

V. Individuals' Abilities to Repay Nonmortgage Debts

A. Debtors' Ability to Repay Nonmortgage Debts from Income

Given individuals' income available to repay nonmortgage debts (the difference between their after-tax income and their basic living expenses) questions arise as to (a) what proportion of their debts consumers would repay in three, four, or five years, and (b) what percentage of consumers could repay their debts in full. Before these questions can be answered, the issue of what debts consumers can be expected to repay in a given period of time must first be resolved.

Mortgage payments are included in basic living expenses. Thus, the inclusion of home mortgages with debts to be repaid out of "income available to repay debts," would imply that homeowners should repay their mortgages twice. Further, because of mortgage debts' typically long-maturity, it does not make sense to consider such debts when making calculations of consumers' abilities to repay their debts in full in three, four, or five years. Also, insofar as mortgage debts applied to properties other than the home, the liquidation of those properties (such as second homes, etc.) generally should provide adequate funds to repay those debts--since mortgage lenders typically will not make a mortgage loan unless the value of the secured assets substantially exceeds the value of the mortgage. Similar reasoning applies to business debts, which typically are secured by the assets of the business. Thus, in all subsequent calculations, we focused only on consumer debts. This was done by subtracting all mortgage debts and business debts from the consumer's total debts.[6]

The following exhibits provide estimates of the percentages of consumer debts that bankrupt debtors could repay out of their "income available to repay debts" in three, four, or five years. The top line of each table shows the percentage that could repay their debts in full. The second line shows the percentage that could repay 75-100 percent of their debts. The third line shows the percentage that could repay 50-75 percent of their debts, etc. Finally, the last line of the exhibit shows the percentage that could not repay their debts at all.

Exhibits 3-6, 3-7, 3-8 show the percentage of respondent's who either could repay their nonmortgage, nonbusiness debts in full or repay various portions of their debts out of income left over after they met their basic living expenses. The exhibits also present data on average income and debt holdings. Exhibits 3-6, 3-7, and 3-8 assume three-, four-, and five-year repayment periods, respectively.

Exhibits 3-9, 3-10, and 3-11 are exactly analogous to Exhibits 3-6 to 3-8, except they inflate each respondent's basic living expenses with a 20 percent "cushion" for nonhousing expenditures. Calculations for the case where a ten percent cushion was assumed are not shown. Those results are highly similar to the other results, as repayment capacities are not highly sensitive to the "cushion" assumptions over the range of zero to 20 percent.

EXHIBIT 3-6

ABILITY TO REPAY NONMORTGAGE DEBT FROM INCOME IN THREE YEARS AFTER MEETING BASIC LIVING EXPENSES

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Nonmortgage, Nonbusiness Debt	Average Debt Repayable in Three Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	217	20.3%	20.3%	$10,527	All	$17,944	$15,862
75-99.9%	61	5.7	26.0	13,719	$11,775	14,212	13,122
50-74.9%	57	5.3	31.3	19,044	11,638	16,072	13,775
25-49.9%	80	7.5	38.8	26,952	10,319	14,219	13,114
0.1-24.9%	97	9.1	47.9	35,545	5,387	12,064	11,221
0% or less	558	52.1	100.0	18,776	None	5,650	6,366

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-7

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN FOUR YEARS AFTER MEETING BASIC LIVING EXPENSES

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Four Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	278	26.0%	26.0%	$11,227	All	$17,125	$15,261
75-99.9%	38	3.6	29.5	17,085	$15,282	15,350	13,475
50-74.9%	63	5.9	35.4	26,309	16,186	16,545	14,601
25-49.9%	57	5.3	40.7	37,588	13,054	13,339	11,861
0.1-24.9%	76	7.1	47.9	29,478	4,440	11,025	10,720
0% or less	558	52.1	100.0	18.776	None	5,650	6,366

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-8

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN FIVE YEARS AFTER MEETING BASIC LIVING EXPENSES

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Five Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	310	29.0%	29.0%	$11,945	All	$17,058	$15,156
75-99.9%	44	4.1	33.1	19,420	$16,444	15,335	13,544
50-74.9%	46	4.3	37.4	30,061	19,558	14,687	13,556
25-49.9%	53	5.0	42.3	41,417	15,285	13,374	11,884
0.1-24.9%	59	5.5	47.9	28,397	4,384	10,802	10,467
0% or nothing	558	52.1	100.0	18,776	None	5,650	6,366

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-9

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN THREE YEARS AFTER MEETING BASIC LIVING EXPENSES PLUS A 20 PERCENT CUSHION

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Three Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	159	14.9%	14.9%	$10,601	All	$19,037	$16,612
75-99.9%	51	4.8	19.6	12,884	$11,313	15,921	14,462
50-74.9%	55	5.1	24.8	16,820	10,713	15,262	13,165
25-49.9%	77	7.2	32.0	27,965	10,319	16,546	14,846
0.1-24.9%	87	8.1	40.1	32,748	5,752	13,411	12,144
0% or less	641	59.9	100.0	18,748	None	6,268	6,888

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-10

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN FOUR YEARS AFTER MEETING BASIC LIVING EXPENSES PLUS A 20 PERCENT CUSHION

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Four Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	210	19.6%	19.6%	$11,155	All	$18,280	$16,089
75-99.9%	42	3.9	23.6	17,947	$15,858	16,225	13,965
50-74.9%	47	4.4	27.9	25,000	15,037	16,044	13,856
25-49.9%	73	6.8	34.8	32,913	11,456	15,800	14,267
0.1-24.9%	57	5.3	40.1	28,001	5,319	12,127	11,306
0% or less	641	59.9	100.0	18,748	None	6,268	6,888

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-11

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN FIVE YEARS AFTER MEETING BASIC LIVING EXPENSES PLUS A 20 PERCENT CUSHION

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Five Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	242	22.6%	22.6%	$12,153	All	$17,995	$15,805
75-99.9%	38	3.6	26.2	17,306	$14,830	15,845	13,634
50-74.9%	46	4.3	30.5	28,824	18,254	15,718	14,638
25-49.9%	57	5.3	35.8	40,065	14,499	15,741	13,640
0.1-24.9%	46	4.3	40.1	23,085	4,960	11,781	11,059
0% or less	641	59.9	100.0	18,748	None	6,268	6,888

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

B. Minority Debtors' Ability to Repay Nonmortgage Debts From Income

One question that has been raised is whether minority group members would be deemed less or more able to repay debts once their income and basic living expenses had been covered. Consequently, we made a separate analysis of minority debtors' potential ability to repay debts. Exhibit 3-12 presents results of that analysis for Black and Hispanic respondents. That exhibit is comparable to Exhibit 3-8 for the sample as a whole. Exhibit 3-8 was selected for comparison purposes because the maximum percentage of debtors can repay their debts if they repay them over five years and are assumed to spend their income only for their basic living expenses and nonmortgage debt repayment.

Visual comparisons of Exhibits 3-8 and 3-12 suggest that minority group members are almost identical to the bankruptcy sample as a whole in terms of their ability to repay their debts. We found almost identical percentages were able to repay (1) no debts (50.5 percent for minorities and 52.1 percent for the full sample), (2) at least half their debts (38.3 percent for minorities and 37.4 percent for the full sample), and (3) all their nonmortgage debts (30.6 percent for minorities and 29.0 percent for the full sample). Furthermore, average debt and income levels for both those able to repay in full and not able to repay at all were very similar. Thus, it appears that minority group members have exactly equal capacities to repay debts under our assumptions as bankrupt debtors in general.

EXHIBIT 3-12

ABILITY TO REPAY NONMORTGAGE DEBTS FROM INCOME IN FIVE YEARS AFTER MEETING BASIC LIVING EXPENSES

(BLACKS AND HISPANICS ONLY)

Could Repay	Number of Petitioners	Percent of Respondents	Cumulative Percentage	Average Non-mortgage, Non-business Debt	Average Debt Repayable in Five Years	Average Taxable Income	Average Income (After Taxes and Alimony, Plus Nontaxable Income)
100% or more	60	30.6%	30.6%	$10,888	All	$19,696	$15,664
75-99.9%	9	4.6	35.2	11,042	$ 9,740	10,747	10,748
50-74.9%	6	3.1	38.3	22,480	13,318	13.907	11,533
25-49.9%	7	3.6	41.8	14,501	5,919	9,319	9,376
0.1-24.9%	15	7.7	49.5	39,057	3,237	11,351	10.618
0% or less	99	50.5	100.0	11,609	None	6,173	6,390

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

C. Debt Repayments as a Percentage of Income

To ensure that our assumptions regarding debt repayment capacity did not impose an inordinate burden on low income people, we calculated the _average_ proportion of income that we assumed would be devoted to debt repayment by various income classes. The results of those calculations are presented in Exhibit 3-13. They indicate that on average, most people (some people with low housing expenses and few dependents might be an exception) with money incomes below $10,000 could not devote any income to repaying debts. In the $10,000-$15,000 income bracket a relatively small proportion of income (2.5 percent to 11.7 percent on average) could be devoted to repaying debts. At income levels of $20,000 or above, the proportion of income devoted to debt repayment increased until it reached 37 percent to 39 percent for respondents with annual incomes over $35,000. Thus, the data in Exhibit 3-13 suggest that assumed debt repayment payment burdens will not fall disproportionally, if at all, on low income consumers. Rather, they will fall most heavily on the relatively well-to-do.

D. Comparative Levels of Basic Living Expenses

Underlying our assumption that many consumer debts can be repaid out of income is the assumption that consumers will have some money left over after meeting their basic living expenses. Since basic living expenses vary substantially with the number of dependents it is instructive to analyze them, and compare them to living expenses for a family of four to Bureau of Labor Statistics living expenses calculations for a family of four that lives on a typical "lower-income" budget. It also is useful to compare our calculations of basic living expenses to poverty thresholds calculated by the Census Bureau. Relevant data are presented in Exhibit 3-14.

EXHIBIT 3-13

FREQUENCY DISTRIBUTION SHOWING AVERAGE ABILITY TO REPAY RATIOS BY INCOME

Annual Income Level (last month's earnings times 12 or last years total income)	Number of Respondents	Average ratio of income in excess of "Basic Living Expenses" to annual income*	Average ratio of income in excess of "Basic Living Expenses plus 20% Cushion" to annual income**
Under $3,000	43	-6.736	-7.774
$3,000 - $4,999	69	-0.792	-1.047
$5,000 - $7,499	150	-0.302	-0.469
$7,500 - $9,999	161	-0.096	-0.218
$10,000 - $14,999	241	0.117	0.025
$15,000 - $19,999	115	0.208	0.138
$20,000 - $24,999	71	0.304	0.250
$25,000 - $34,999	33	0.338	0.294
$35,000 plus	17	0.394	0.370

*These ratios equal the average of annual Disposable Income (DI) less annual Basic Living Expenses (BLE) divided by annual income (y), calculated as $\left(\sum_{i=1}^{n} (DI_i - BLE)/y_i \right)/n$ where n equals the number of respondents in each group. Large negative values occur in low income groups because estimates of basic living expenses are very high relative to actual income levels. If key data were lacking or earned income was zero, no calculations were made. Positive values such as the 0.117 for the $10,000 - $14,999 income bracket should be read as indicating that, on average, income in excess of basic living expenses averaged 11.7% of total income for members of that group.

**These calculations are identical to those in the middle column, except that Basic Living Expenses plus a 20 percent confort allowance was subtracted from disposable income instead of just BLE.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-14

AVERAGE LIVING EXPENSES FOR FAMILIES OF DIFFERENT SIZES

Dependents	Total Number/ Number on Which Calculations Are Based	Basic Living Expenses (April 1981)		BLS "Low Income Budget" (Autumn 1980)	Bureau of Census Price Adjusted Poverty Level (April 1981)
		BLE	BLE + 20		
1	257/229	$ 7,907	$ 8,562		$ 4,567
2	214/187	9,698	10,518		5,830
3	246/216	10,820	11,828		7,146
4	256/235	13,657	14,959	$14,044	9,159
5	122/112	14,288	15,825		10,833
6	62/56	14,802	16,528		12,213
Over 6	42/37	16,351	17,431		15,143

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

NOTE: Insufficient data on one or more critical items (such as income, dependents, etc.) were available to calculate basic living expenses for all respondents. Hence, the number of respondents on which calculations were based was approximately ten percent less than the number of respondents who fell in each category.

The data presented in Exhibit 3-14 show that basic living expenses calculated for use in this study rise substantially with family size--both because of rising dependent allowances and because of increases in actual housing costs. For a family of four, our calculated basic living expenses plus taxes averaged $13,657, and basic living expenses plus a 20 percent nonhousing expense "cushion" and taxes averaged $14,959. These figures bracketed the BLS statistics showing that a typical lower-income family budget called for an income of $14,044 in Autumn 1980. Adjusting for inflation to April 1981 would imply that the BLS lower-income budget would be approximately $14,900 for the same point in time as our basic living expense calculations. However, that budget also allowed for some saving and debt repayment so that, on balance, it measured more than is included in our basic living expense calculations. Consequently, we conclude that our basic living expense calculations are both very similar to the BLS's lower income budget. Probably it approximates most closely the cases where a ten percent or 20 percent "comfort" allowance is allowed--which is consistent with the fact that the BLS standard is assumed to be a typical budget, not a basic living expense budget, for a lower-income family.

The data presented in Exhibit 3-14 also show that our basic living expense allowances substantially exceed government poverty threshold calculations. The differences are particularly marked (averaging close to $4,000 per family) for families with less than six dependents. These differences arose because our calculations assumed that existing housing expenses would be continued.

VI. Ability to Repay Debts out of Assets

Business debtors frequently are lent money based on their pledge of assets as collateral to guarantee repayment--and are considered insolvent when their liabilities exceed their assets. However, consumer debtors typically do not borrow against assets, but rather, borrow against future income. Nonetheless, the question has arisen as to whether consumer debtors have the ability to repay debts out of assets.

Exhibit 3A-1 in the Appendix indicates that average secured debt holdings on bankruptcy petitions is less than the market value of property used to secure the debt. Thus, it is conceivable that some consumer bankruptcy petitioners could repay their debts by liquidating assets rather than by repaying debts from future income. However, large exemptions in the bankruptcy laws may reduce their need to do so.

Exhibit 3-15 and 3-16 provide some insight into consumers' ability to repay debts from assets, rather than income. Exhibit 3-15 indicates that, after allowing for assets exempt from seizure to repay debts, only 5.3 percent of the bankruptcy petitioners could repay their debts by liquidating their assets. However, Exhibit 3-16 indicates that it would not be wise for most to repay their debts by liquidating assets. Approximately half of the people who could repay their debts from assets could repay none of their debts from income. Thus, if they liquidated their assets, they would have nothing on which to live. Furthermore, only 20 to 28 percent of them would be able to repay their debts in full if they chose to repay debts out of income rather than out of assets.

EXHIBIT 3-15

PERCENTAGE OF DEBTORS MEETING SOLVENCY TEST[a]

(PERCENTAGE OF DEBTORS)

	Number	Percent
Solvent debtors	63	5.3
Insolvent debtors	1,127	94.7
Totals	1,190	100.0

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[a] Debtors are categorized as solvent if reported assets, less exemptions, exceeded reported debts. In several cases petition data were not available or usable.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

EXHIBIT 3-16

PERCENTAGES OF NONMORTGAGE DEBTS[a] THAT COULD BE REPAID IN 36 MONTHS FROM AVAILABLE INCOME BY DEBTORS CATEGORIZED AS SOLVENT[b]

(PERCENTAGE OF DEBTORS)

Percentage of Non-Mortgage Debt Repaid	Basic Living Expense			Basic Living Expense Plus 20 Percent of Non-Housing Needs		
	N	Percent	Cumulative Percentage	N	Percent	Cumulative Percentage
100% or more	18	28.6	28.6	13	20.6	20.6
75% to 99.9%	7	11.1	39.7	2	3.2	23.8
50% to 74.9%	2	3.2	42.9	3	4.8	28.6
25% to 49.9%	4	6.3	49.2	7	11.1	39.7
0% to 24.9%	2	3.2	52.4	5	7.9	47.6
None	30	47.6	100.0	33	52.4	100.0
Totals	63	100.0		63	100.0	

[a] Non-mortgage debt excludes mortgage and business debts.

[b] Debtors are categorized as solvent if reported assets, minus exemptions, exceeded reported debts.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

VII. Summary and Conclusions

Analysis of data from 1,199 bankruptcy petitions and personal interviews indicates that, depending upon the assumptions made, 15 percent to 30 percent of bankrupt debtors probably could repay all of their nonmortgage debts out of their future income, while as many as 37.4 percent of bankrupt debtors probably could repay at least half their debts out of future income. This finding makes sense because a large proportion of the bankruptcy petitioners were employed full-time and most had had at least one wage-earner employed full-time for the previous year. The percentage of people who could repay their debts varied little by racial affiliation.

Because consumers typically borrow aginst future income rather than assets, only five percent of the respondents could repay their debts by liquidating assets, and half of those would not have been able to repay their debts from future income. Thus, overall, it appears that a future income test provides a more equitable test than an assets test in determining which consumers potentially could repay their debts.

FOOTNOTES

[1] U.S. Department of Commerce, Bureau of the Census, Current Population Reports, Series P-60, No. 125: Money Income and Poverty Status of Families and Persons in the U.S. 1979. Washington, D.C., September 11, 1980.

The data used in this study were applicable to the entire U.S. population. This resulted in a substantial overstatement of farm family poverty levels (by 14 percent for a family of four) and a minimal understatement of urban poverty levels (by 0.35 percent for a family of four). Ideally separate poverty levels would be used for farm and nonfarm families, but it was not easy to determine from the questionnaire and petition data which respondents were farmers.

[2] U.S. Department of Commerce, Bureau of the Census, Current Population Reports Series P-60, No 125, Money, Income and Poverty Status of Families and Persons in the United States, 1980. Washington, D.C. August, 1980, pp. 39.

[3] U.S. Department of Labor, Bureau of Labor Statistics, Autumn 1979 Urban Family Budgets and Comparative Indexes for Selected Urban Areas, Washington, D.C. April 30, 1980, Table 4.

[4] Our objective in calculating housing-adjusted basic living expenses was to ensure that an individual could continue to live in his/her present residence and have enough income to spend an amount equal to or greater than poverty thresholds on other things. While it was relatively easy to determine the poverty thresholds from government data, those data did not indicate what share of those expenditures were assumed to be allocated to different purposes. Only food expenditures (which were initially defined to be one-third of such spending) were known with certainty. Thus, it was necessary to estimate the implicit housing alllowance embodied in the government definition. The best source for doing so was deemed to be the 1972-1973 Consumer Expenditure Survey data compiled by the Bureau of Labor Statistics. Those data provide detailed information on spending by families of different income levels for use in preparing the Consumer Price Index (CPI).

Exhibit 3-5 shows the proportion of total consumption expenditures allocated to shelter, utilities, property taxes, and insurance by housholds in each income group. As can be seen, the proportion of housing related expenses varies inversely with the income level. The poorest people devote a large portion of their total consumption outlays to housing expenditures.

FOOTNOTES (continued)

Because housing expenditures are high for low income poverty level people and the fact that an Indiana welfare agency assumes poor people spend 35 percent of their income on housing, we initially considered using a 35 percent housing adjustment in our calculations. However, the BLS data indicated that people at somewhat higher income levels spend a lower percentage of their income on housing. Consequently, we adopted a 26 percent housing allowance assumption. If anything, that assumption should understate total housing expenses made by families with incomes below $7,500 in 1972-73 dollars. Thus, it should provide a generally low estimate of housing needs for all low income families in 1981. To the extent that the 26 percent assumption actually understates the amount of housing expenses embodied in poverty threshold allowances, it will overstate non-housing expense allowances. Consequently, we used the 26 percent adjustment to ensure that, if anything, the non-housing expense allowances embodied in our "Basic Living Expense" calculations would equal or exceed poverty thresholds.

[5] U.S. Department of Labor "Autumn 1979, Urban Family Budgets," op.cit., Table A.

[6] There was little difference in results obtained when this approach was used and when an alternative approach, which subtracted only first mortgage debts from total debts, was used. Overall, the second approach found that approximately one percent fewer consumers could repay all their debts (except first mortgages) in three to five years than could repay all their debts except mortgage and business debts. The discrepancy was small because most debtors did not have business debts or mortgage debts not secured by their home.

Evidence also exists that many debtors could liquidate their business and investment debts out of assets--even though the alternate calculations did not consider that possibility. While business inventories averaged slightly less than business debts, both second houses and investment assets were worth considerably more than related debts (see the Appendix).

CHAPTER 3 APPENDIX

COMPARISON OF RESPONDENTS AND NONRESPONDENTS

An important issue to investigate is whether the 1,199 bankrupt debtors who were approached and consented to an interview were representative of bankrupt debtors in general. If the 1,050 petitioners who declined an interview differed systematically from those who accepted, the generality of the survey's results could be questioned.

Thus, the survey design called for obtaining as much information as possible on debtors who declined interviews as well as on people who accepted. This objective was accomplished by coding as much data as possible from the bankruptcy petitions of both those people who responded affirmatively to a request for an interview and those people who declined. Exhibit 3A-1 summarizes key responses for each of the two groups.

Basically, the data presented in Exhibit 3A-1 suggest that there were great similarities among respondents and nonrespondents to the survey. Their 1980 average incomes (which was the primary determinant of their ability to repay debts) were practically identical. In addition, both groups were very likely to use lawyers, each group had slightly over 10 percent who had previously declared bankruptcy, and the incidence of unusual transfers and surrenders of property prior to bankruptcy was very similar for both groups. The two groups differed, however, in the extent of their average indebtedness.

Based on average data, it appeared that the nonrespondents held more debt, and also more assets, than the respondents. However, the averages are somewhat misleading because the nonrespondent sample contained more people with very large debts. In particular, 2.2 percent of the nonrespondents had over $300,000 worth of debts while only 0.6 percent of the respondents had that much debt. Because every $1 million in debts adds $1,000 to the average debt statistics, a relatively small number of large debts can inflate the average debt statistics substantially.

Consequently, when the distribution of debt statistics is examined in more detail it appears that average debts for the two samples are more similar than might otherwise be apparent. In particular, looking only at people with debts under $50,000, the average debt holdings of both respondents and nonrespondents were in the $15,000 range. The nonrespondents differed mainly in that 77 percent of their number fell in this category, while 84.9 percent of the respondents held less than $50,000 in debt.

Average debt holdings of respondents in each debt category usually were also very similar. However, the percentage of consumers holding large amounts of debt was generally higher for nonrespondents than for respondents. For instance, 10.6 percent of the nonrespondents had debts over $100,000 while only 5.5 percent of the respondents had debts that large. There was also a slightly higher percentage of business-related filings (7.7 percent to 6.0 percent) among the nonrespondents, and slightly more (29.3 percent vs. 27.5 percent) were homeowners. These two factors could have accounted for much of the discrepancy in large debtors that existed in the two samples.

Additional analysis of debtors with over $500,000 in debts indicated that several had lost lawsuits while others had suffered from unincorporated business losses. Probably their prior legal difficulties had made such petitioners unwilling to spend any additional time in court. As a result, nonrespondents in this group outnumbered respondents by eight to two.

Overall, then, most characteristics of debtors in the two samples were highly similar. On average, the nonrespondents held more debts, but this mainly reflected the fact that large debtors were less likely to respond. Since incomes were nearly identical and the vast majority of people held similar amounts of debt, the differences in the nonrespondents were expected to have little effect on calculations of the percentage of people who could repay their nonmortgage, nonbusiness debts.

EXHIBIT 3A-1

COMPARISON OF BANKRUPTCY PETITION DATA FOR SURVEY RESPONDENTS AND NONRESPONDENTS

	Respondents (1199)	Nonrespondents (1050)
Average taxable income:		
Wages	13,101.07 (1084)	13,172.27 (905)
Other	758.00 (1041)	697.05 (889)
Total	13,979.29 (1014)	13,924.47 (860)
Average assets:		
Total	15,767.39 (1182)	19,670.66 (1019)
Real	10,309.91 (1185)	14,504.44 (1019)
Average exemptions	7,035.91 (1168)	7,884.77 (981)
Average debt:		
Secured debt A2 (p46)	15,260.44 (1189)	20,033.75 (1026)
Unsecured debt A3	14,657.06 (1191)	23,316.79 (1028)
Total	30,245.59 (1191)	43,608.59 (1028)
Total debt distribution:		
Under 50,000	15,274 (1010-84.9%)	15,824 (809-77.0%)
50,000-100,000	67,358 (117-9.6%)	68,405 (130-12.4%)
100,000-200,000	130,261 (35-2.9%)	131,950 (52-5.0%)
200,000-300,000	240,172 (14-1.2%)	235,314 (14-1.3%)
300,000-400,000	365,893 (1-0.1%)	342,143 (9-0.9%)
400,000-500,000	418,904 (4-0.3%)	444,562 (6-0.6%)
500,000 +	1,314,686 (2-0.2%)	904,046 (8-0.8%)
Debt except mortgages and business	19,050.71 (1191)	30,906.02 (1028)
Debt except first mortgages	22,215.59 (1191)	34,059.59 (1028) 1 missing
Homeownership:		
1st mortgage amount	25,794.38 (332)	28,752.13 (307)
Value of house	36,776.51 (288)	40,152.76 (271)
2nd mortgage amount	16,330.97 (92)	19,354.35 (107)
Value of house	52,360.92 (77)	52,192.32 (89)
Second house amount	29,403.10 (10)	27,261.93 (14)

EXHIBIT 3A-1--Continued

	Respondents (1199)		Nonrespondents (1050)	
Secured debt amount (p55)	15,280.68	(1188)	19,910.38	(1026)
Market value of secured items	15,594.52	(1040)	19,920.00	(911)
Business debt (inventories)	22,466	(26)	13,463	(24)
Business inventory values	18,154	(19)	10,258	(18)
Investment property debts	22,760	(30)	24,928	(35)
Investment property values	33,575	(25)	42,916	(26)
	Other Data			
Legal services used	95.8%	(1177)	97.7%	(1027)
Legal fees	$381.37	(1007)	$424.00	(902)
Business form used	6%	(1199)	7.7%	(1029)
Prior bankruptcy (bus. form)	7.1%	(56)	10.4%	(77)
Prior bankruptcy (standard)	10.8%	(1094)	11.2%	(916)
Overall, prior bankruptcy (%)	10.2%	(1199)	10.8%	(1029)
Property garnished	32.9%	(1108)	32.4%	(931)
Unusual gifts	1.5%	(1112)	1.6%	(930)
Other transfers	9.2%	(1103)	11.9%	(933)
Voluntarily surrendered property	19.3%	(1115)	20.4%	(933)

EXHIBIT 3A-1--*Continued*

Distribution of Debt Except Mortgage and Business Debt
(Based on Total Debt)

Total Debt ($)	Nonmortgage Nonbusiness Debt ($)	All Debt Except First Mortgages ($)
Under 50,000	9,503	10,917
50 - 100,000	33,208	38,235
100-200,000	84,421	92,775
200-300,000	160,293	154,824
300-400,000	272,083	291,339
400-500,000	261,550	406,448
500,000 +	1,299,236	739,827

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

CHAPTER 4

PUBLIC POLICY ISSUES

Robert W. Johnson

The basic issue to be examined is as follows: Should debtors be barred from electing bankruptcy if they could pay a reasonable portion of their debts out of anticipated future income? To reach a judgment concerning this issue, three questions need to be answered on the basis of empirical evidence. First, are the aggregate dollar amounts of affordable debts high enough to warrant consideration of a change in the legislative regimen? Second, what are the subsidies or wealth transfers involved under the present system? Are they desirable from the point of view of public policy? Third, how are the markets for consumer credit affected by the current policy of permitting debtors to file for bankruptcy? This chapter addresses each of these issues in turn. It concludes by explaining how the empirical evidence from this study relates to the public policy issues.

I. Aggregate Impact of Consumer Bankruptcies

A. Annual Dollar Amounts of Chapter 7 Debts

1. Nonmortgage debt owed by petitioners in sample

The first step in estimating the annual dollar amounts of debts involved in consumer bankruptcies was to calculate the total nonmortgage and nonbusiness debts owed by the sample of bankrupts interviewed. As explained in Chapter 3, payments on residential mortgage debts were included in the calculation of debtors' basic living expenses.

Further, it was assumed that other mortgage debts and business debts were payable from the liquidation of the pledged properties.

The data in Exhibit 3-8 show the average amount of nonmortgage, nonbusiness debts outstanding for various sets of debtors, grouped according to the proportions of their repayable debts. (Exhibits 3-6 or 3-7 could have been used for the calculations in this chapter as well.) Multiplying the number of petitioners in each group by their average nonmortgage, nonbusiness debts and then summing those products yields $20.3 million, the aggregate nonmortgage debts owed by the respondents. Details of this calculation are shown in Exhibit 4-1.

It is noteworthy that over half of the nonmortgage debts at the time of filing were clearly uncollectible in that they were owed by consumers whose incomes were insufficient to make payments on nonmortgage debts after meeting basic living expenses and actual housing expenses. At the same time, 18.3 percent of the aggregate debt was owed by petitioners who could have repaid all of their nonmortgage debts in no more than five years--again after meeting basic living and housing expenses.

2. Nonmortgage debt owed by all Chapter 7 petitioners

The next step was to estimate the annual number of Chapter 7 cases or filings for 1981 and subsequent years. Since the interviews and petitions were gathered on the basis of cases, it was important to work with aggregate data based on numbers of cases as well, rather than the number of personal bankruptcies. The latter figure would reflect the number of persons filing for bankruptcy. Thus, a single joint

EXHIBIT 4-1

TOTAL NONMORTGAGE DEBTS OWED BY PETITIONERS IN SAMPLE, GROUPED BY AFFORDABLE DEBTS REPAYABLE IN FIVE YEARS

(DOLLAR AMOUNTS IN THOUSANDS)

(1) Could Repay	(2) Number of Petitioners[a]	(3) Average Nonmortgage, Nonbusiness Debt[a]	(4) Aggregate Debts (2)x(3)	(5) Percentage Of Total
100% or more	310	$11.9	$3,703	18.3%
75-99.9%	44	19.4	854	4.2
50-74.9%	46	30.1	1,383	6.8
25-49.9%	53	41.4	2,195	10.8
0.1-24.9%	59	28.4	1,675	8.3
0% or less	558	18.8	10,477	51.6
Totals	1,070		$20,288	100.0%

[a] Exhibit 3-8.

NOTE: Details may not add to totals because of rounding.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

filing by husband and wife represents one case, but two personal bankruptcies.

Data on consumer bankruptcies for all of 1981 are not available at this point, but may be estimated from data through November, 1981, provided by the Bankruptcy Division, Administrative Office of the U.S. Courts. Extrapolation of those data to the full year suggests total personal bankruptcies for 1981 of about 450,000. Adjustment for joint filings yields about 315,000 nonbusiness cases, both Chapter 13 and Chapter 7. Given the 208,570 Chapter 7 cases for the first 11 months of 1981, a total of 227,541 cases may be estimated for the year. In the calculations that follow it was assumed that in the future bankruptcy cases would level off at 227,540 per year.[1] Thus, the annual dollar amounts involved in bankruptcies and potential recoveries are based upon this assumed "steady state" level of annual Chapter 7 filings over an indefinite period of time.

It was assumed that the debtors surveyed were adequately representative of debtors filing for Chapter 7 nationally. The assumption seems reasonable in terms of the size of the sample, the test for homogeneity with nonrespondents (see Chapter 3 Appendix), and the location of the respondents (large, populous states, stratified by exemption levels, as explained in Chapter 2).

The next step was to extrapolate to the national experience the \$20.3 million of nonmortgage debts owed by the 1,070 respondents for whom adequate income data were available from the survey:

$$\frac{227{,}540}{1{,}070} \times \$20.3 \text{ million} = \$4{,}317 \text{ million}^{2}$$

Thus, if consumer bankruptcy filings level off at 227,540 annually and the nonmortgage debts per filing remain unchanged, the aggregate nonmortgage debts filed annually under Chapter 7 would amount to about $4.3 billion in 1981 and subsequent years. This is a conservative estimate, since no allowance is made for the effect of inflation in subsequent years on the average amount of debts filed per year.

The figure of $4.3 billion does not precisely represent total bankruptcy losses, since a portion of those debts were secured by such collateral as automobiles, household furnishings and recreational vehicles. Among the first four groups of cases shown in Exhibit 4-1 (those who could repay 25 percent or more of their debts), the dollar amount of secured debts ranged from about 26 percent of total debt from those who could have repaid half to three-quarters of their nonmortgage debt, to about 44 percent for those in the 75-percent-to-99.9-percent repayment group. However, in those cases that the secured debts exceeded the market value of the collateral shown on the petition, the shortfall became an unsecured claim. Also, some of the liens may have been avoided by Section 522(f)(2) of The Bankruptcy Reform act of 1978, specifically

> a nonpossessory, nonpurchase-money security interest in any--
>
> (A) household furnishings, household goods, wearing apparel, appliances, books, animals, crops, musical instruments, or jewelry that are held primarily for the personal, family, or household use of the debtor or a dependent of the debtor;
>
> (B) implements, professional books, or tools, of the trade of the debtor or the trade of a dependent of the debtor; or
>
> (C) professionally prescribed health aids for the debtor or a dependent of the debtor.

Under Section 522(f)(2), these secured debts would also become unsecured claims. Little recovery of unsecured claims can be anticipated under Chapter 7. While some recovery of the remaining secured debts undoubtedly was realized, the amount of secured claims allowed, the value of the collateral approved, its disposition, and ultimate recoveries could not be determined at the time of the 341 hearing, when the data were gathered. Thus, some portion of the $4.3 billion was recoverable under the present legislative regimen, but the amount could not be confidently estimated from the survey data.

B. Annual Dollar Amount of Potentially Recoverable Chapter 7 Debts

1. Potentially recoverable debts owed by petitioners in sample

If about $4.3 billion represents the amount owed on nonmortgage debts in Chapter 7 cases, (unadjusted for inflation) what portion of this might be recoverable under a different legislative regimen? The first step in addressing this question was to determine the amount of debts that might have been collectible from the sample of Chapter 7 debtors. As shown in Exhibit 4-1, respondents owed about $20.3 million at the time of filing. However, only a portion of this was repayable, in the sense that debtors had income remaining after taxes, basic living expenses, and actual housing costs to apply to debts. The average amounts of affordable debts for respondents grouped by ability to repay over a five-year period are shown in Exhibit 3-8. The aggregate amount of repayable debt for the petitioners was calculated in the same manner shown in Exhibit 4-1.[3] The total repayable debt (as defined in Chapter 3 and including secured debt) for the respondents was $6.4 million, or 31.5 percent of the total debts filed.

However, as a practical matter, it would be unreasonable to expect that all of these debts would be collected. To be conservative, it was assumed that those consumers who could reasonably have paid 75 percent to 100 percent or more of their nonmortgage debts would have paid all of their nonmortgage debts; that consumers who could have paid 25 percent to 75 percent of their debts would have paid only half of their repayable debts; and that all others would have paid nothing. On the basis of these assumptions and the calculations shown in Exhibit 4-2, it was estimated that potentially recoverable nonmortgage debts of the sample petitioners amounted to $5,281.

In summary, analysis of the data for the sample petitioners regarding their nonmortgage, nonbusiness debts, based on a five-year payout yielded the following results:

	Amounts in thousands of dollars	Percent of total
Total nonmortgage, nonbusiness debt	$20,288	100.0
Repayable debt	6,395	31.5
Potentially recoverable debt	5,281	26.0

As shown in Exhibit 4-2, 70 percent of the potentially recoverable debt was owed by consumers who could have repaid 100 percent of their debts within a period of no more than five years. This group of debtors comprised 29 percent of the sample and was the group with the highest average pre-tax income--$17,058 v. $10,409 for the entire sample. These are the debtors who would be vulnerable to a provision denying admission to Chapter 7 to applicants who could pay a reasonable portion of their debts from anticipated future income.

In contrast, under the stated assumptions no debts were recoverable from the future income of the 58 percent of the respondents able to repay less than 25 percent of their nonmortgage debts over five years. On average, these consumers had much lower incomes (an average of $6,143 pre-tax) than those with large amounts of affordable debts(Exhibit 3-8). Because of their inability to repay a reasonable portion of their debts from anticipated future income, these consumers would not be barred from bankruptcy, even if Chapter 7 were available only to people who had little ability to repay their debts.

Based upon the analysis of the debtors surveyed, the conclusions regarding the potential effect of legislative proposals for an admission test to Chapter 7 based on repayable debts may be summarized as follows:

Vulnerability to proposed admission test	Debtors who could repay	Percent of debtors	Share of nonmortgage debt	Share of potentially recoverable nonmortgage debt
Affected	75% to more than 100%	33.1%	22.5%	83.8%
Partially affected	25% to 74.9%	9.3	17.6	16.2
Unaffected	Less than 25%	57.7	59.9	0.0
Totals		100.0%	100.0%	100.0%

Details do not add to totals because of rounding.

2. Potentially recoverable debts of all Chapter 7 petitioners

As in the previous section, the proportion of estimated Chapter 7 filings to the number of sample respondents shown in Exhibit 4-2 was used to estimate total recoverable debts of all Chapter 7 petitioners

EXHIBIT 4-2

POTENTIALLY RECOVERABLE NONMORTGAGE DEBTS OWED BY PETITIONERS IN SAMPLE, GROUPED BY RECOVERABLE DEBTS REPAYABLE IN FIVE YEARS

(DOLLAR AMOUNTS IN THOUSANDS)

(1) Could Repay	(2) Number of Petitioners	(3) Average Nonmortgage Debt[a]	(4) Average Affordable Debt[a]	(5) Recovery Factor[b]	(6) Average Potentially Recoverable Debt	(7) Aggregate Potentially Recoverable Debt (2) x (6)	(8) Percentage Of Total
100% or more	310	$11.9	$11.9	100%	11.9	$3,703	70.1%
75-99.9%	44	19.4	16.4		16.4	724	13.7
50-74.9%	46	30.1	19.6	50%	9.8	450	8.5
25-49.9%	53	41.4	15.3		7.6	405	7.7
0.1-24.9%	59	28.4	4.4	0%	0.0	0	0.0
0% or less	558	18.8	0.0		0.0	0	0.0
Totals	1,070					$5,281	100.0%

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[a] Exhibit 3-8, Columns 5, 6.

[b] By assumption

NOTE: Details may not add to totals because of rounding.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

annually--again assuming a steady-state of 227,540 bankruptcy cases annually:

$$\frac{227,540}{1,070} \times \$5.281 \text{ million} = \$1,123 \text{ million}$$

Put another way, out of the $4.3 billion of Chapter 7 debts filed annually, about $1.1 billion--about one-fourth--might be recoverable annually. Estimates of the amounts of nonmortgage and nonbusiness debts that would be potentially recoverable each year under a different legislative regimen vary with the assumptions regarding the basic living expenses, with and without the 20 percent cushion, the period of time over which the debts may be repaid, and the portion of secured claims recoverable under the current regimen. The longer the assumed payment schedule, the larger the amount of potentially recoverable debts. Thus, increasing the payment schedule from 36 months to 60 months raises recoverable debts from about $0.8 billion to $1.1 billion, an increase of about 41 percent (Exhibit 4-3).

The effect of lengthening the payment schedule is even more marked if unsecured debts are considered. If debtors elect Chapter 13 rather than Chapter 7, payment of unsecured debts must follow payment of priority and secured creditors. Data provided by Claude Rice, a leading Chapter 13 trustee, based on over 35,000 Chapter 13 bankruptcy cases filed during 1980 and active on September 11, 1981, show that unsecured creditors would receive 34.7 percent of their allowed claims if the payment plan extended for 36 months, but would receive 77.3 percent of their funds over 48 months, and all of their allowed claims in about 55 months.[4]

C. Are Affordable Debts High Enough to Warrant Change?

Changing an existing legislative regimen is always costly. There are costs to Congress in studying and making a change and to creditors and consumers in adjusting to a change. Since these costs are likely to occur only during the initial years of implementing the change, they should be annualized to compare to the annual sums potentially recoverable by modifying the bankruptcy system. If Chapter 13 is often substituted for Chapter 7 where affordable debts exist, costs of administering the settlements may increase. However, the fact that in some states there is currently a high proportion of Chapter 13 filings relative to Chapter 7 filings suggests that the increase in costs is not prohibitive.

A direct dollar-for-dollar comparison of annualized costs and benefits is not adequate, *per se*, to justify a change in policy. If the wealth transfer generated by avoidance of debts is from less affluent to more affluent consumers, the dollars sacrificed by the less affluent almost certainly have greater utility to those consumers than the subsidy dollars received by the more affluent who have elected not to pay their debts. This fact could justify a change in the legislative regimen, even if the annualized dollar costs of making the change exceeded the amount of the wealth transfers from avoidance of repayable debts.[5]

II. Subsidies Generated By Consumer Bankruptcies

As observed in Chapter 1, consumers were accorded the same right to file for Chapter 7 under the 1898 Bankruptcy Act that they now have under The Bankruptcy Reform Act of 1978. Thus, the analysis in this section

EXHIBIT 4-3

POTENTIALLY RECOVERABLE NONMORTGAGE DEBTS UNDER DIFFERENT ASSUMPTIONS

(Dollar Amounts in Millions)

Payment Schedules	Affordable Debts	Percent Of Nonmortgage Debts	Potentially Recoverable Debts[a]
36 months			
Basic living expenses	$1,066	24.7%	$ 797
Basic living expenses +20%[b]	822	20.4	628
48 months			
Basic living expenses	1,234	28.6	974
Basic living expenses +20%[b]	1,032	23.9	804
60 months			
Basic living expenses	1,360	31.5	1,123
Basic living expenses +20%[b]	1,148	26.6	922

[a] Under assumptions specified in text.

[b] Of nonhousing expenses.

SOURCE: Credit Research Center, Purdue University, Consumer Bankruptcy Study.

applies to the legislative regimen both prior to and following October 1, 1979. It is *not* an analysis of a *change* in the regulatory regimen. The unique contribution of this study lies in the breadth and depth of the empirical data available for the economic analysis of the policy of permitting consumers to avoid debts regardless of their ability to repay.

Bankruptcy losses are a cost of doing business, just as are the cost of funds and general operating costs of extending credit and collecting monthly payments. In the competitive market that characterizes consumer credit, credit grantors must cover all of their costs in the rate charged for credit or in the price of goods sold on credit, or shift funds from consumer credit into some other field of economic activity. Thus, all costs of credit grantors must ultimately be paid by consumers. When creditors raise the price of credit to reflect higher costs, consumers who use credit pay for those costs. When creditors divert funds from consumer credit in response to rising costs, those consumers denied credit also pay for those costs by being forced to use less credit than they would otherwise desire. Typically, consumers denied credit are in a higher risk, lower socio-economic class than those permitted to obtain credit.[6]

The wealth transfer has been ably described in the Brookings Institute study of consumer bankruptcies:[7]

> The bankruptcy process operates ... as a kind if redistributive mechanism whereby goods and services are supplied to one group at the expense of another. In personal bankruptcies, the first group consists of persons whose debts are discharged. The losses incurred by the merchants who sell to them are probably made up in part by sales to cash customers at higher prices than would prevail if debt losses were lower. Another part of those losses is borne by responsible users of credit who pay their debts and who bear

> their share in the form of higher credit charges or prices. But the costs of the goods and services consumed by bankrupts may not be distributed uniformly among all borrowers if bankrupts regularly come from a class of high-risk borrowers whose characteristics lenders are quick to recognize and who can obtain credit only by paying a higher charge than other borrowers. In that case the costs may be borne largely by other members of the high-risk group who do repay their debts (or pay cash). It is also conceivable that lenders themselves may bear part of the costs, at least in a period when bankruptcies are increasing rapidly....

Consequently, debates about public policies that affect the levels of bankruptcy losses should not be presented as a conflict between creditors and consumers. In the long run, in a competitive market bankruptcy costs are borne by consumers. The issue is which group of consumers is harmed and which benefits or, in other words, which group of consumers pays the subsidy and which group receives it. In general, consumers who do not pay their debts are subsidized by those who do pay. However, this study goes beyond the Brookings study in that the data permit at least a tentative identification of the two different groups of consumers who receive the subsidy--those who could not pay their debts and those who could apparently pay if they chose to do so.

A. Subsidies to Consumers Who Could Not Pay Debts

Attention is focused here on two types of costs associated with consumer bankruptcies. First, a large portion of bankruptcy losses arise from debts that consumers cannot repay from future income and which are either unsecured or insufficiently secured. The data presented in Chapter 3 and in this chapter suggest that a majority of the Chapter 7 cases involved unaffordable debts, which comprised about three-fourths of the aggregate amount of nonmortgage and nonbusiness debts filed under Chapter 7. Second, a portion of total nonmortgage debts apparently could have been repaid from future income and were avoidable in the sense that a different legislative regimen might have permitted their avoidance or recovery. The data suggest that in 30 percent to 40 percent of the cases there were potentially recoverable debts which made up about one-fourth of the aggregate amount of nonmortgage and nonbusiness debts filed under Chapter 7.

The data indicate that the nature of the subsidy, or wealth transfer, involved in nonaffordable and affordable debts differs. As shown in Exhibit 3-8 and Exhibit 4-2, most nonaffordable debt was held by consumers with low incomes. They received a wealth transfer from other consumers who paid their debts. At the time of the bankruptcy study in 1981, it is reasonable to estimate that over 90 percent of those consumers with instalment debt had family income greater than the average income of those Chapter 7 debtors with nonaffordable debts.[8] Hence, it is reasonable to conclude that the subsidy to cover charged-off debts that could not be paid was generally from more affluent to the less affluent consumers.

B. Subsidies to Consumers Who Could Repay Debts

In contrast to consumers with nonaffordable debts, consumers with affordable debts were concentrated in the upper-income levels of the respondents in the 1981 bankruptcy survey. As shown in Exhibit 3-8, their average taxable income was $17,058, compared to only $5,650 for the 52 percent of the cases where no payments could have been made on nonmortgage debts. The average income after taxes of petitioners filing for bankruptcy who could have repaid in full within 36 months exceeded their average nonmortgage and nonbusiness debts by 1.5 times and, for those who could have repaid in full within 60 months, by 1.3 times (Exhibits 3-6 and 3-8).

A substantial portion of the subsidies received by these consumers must have been from less affluent consumers who had, nonetheless, elected to repay their debts. If income levels of families with instalment debt in 1977 are adjusted upwards to reflect the increase in the cost of living from 1977 to June 1981 (when the bankruptcy survey was made), about 22 percent of the families with instalment debt had incomes ranging from $14,950 to $22,400, a range bracketing the average income for debtors who had affordable debts. If the distribution of income among families with instalment debt is extrapolated from the 1977 survey, about one-fourth of families with instalment debt had incomes falling below that bracket.[9] Through higher finance charges or higher prices of goods and services purchased on credit, these less affluent consumers were providing subsidies to higher-income consumers who avoided repayable debts by choosing bankruptcy.

C. Do the Subsidies Warrant Change?

Whether or not a subsidy is acceptable as a public policy is a value judgment. An admission standard to bankruptcy based on nonaffordable debts would leave untouched the majority of Chapter 7 debtors. For the most part, these are low-income consumers whose basic living costs and actual housing costs absorb their available income, leaving nothing to repay debts. They would all be admitted to bankruptcy, even with an admission standard. Given their socio-economic status, society would probably view the subsidy that they receive as acceptable. Their plight does not call for a change in the bankruptcy system, nor does it mitigate against a nonaffordable debts standard for admission to Chapter 7. Instead, the survey data should be used to determine whether changes might be initiated in the granting of credit to limit the entry of such consumers into the credit market, without at the same time restricting the availability of credit to similarly situated consumers who would repay their debts. This is one of the issues addressed in the second monograph of the Credit Research Center's Bankruptcy Study.

How should one view the subsidy received by the more affluent debtors filing for Chapter 7 who could have repaid a substanital portion of their debts out of future expected income? The amount of subsidy received is nontrivial, probably ranging from $0.6 to $1.1 billion annually, depending upon one's assumptions. Some portion of the subsidy is regressive in that it is from the less affluent to the more affluent. Is this wealth transfer an acceptable product of public policy?

III. Effect of Consumer Bankruptcies on Market Structure

What type of credit markets will evolve if consumers are permitted to avoid their repayable debts? Only 27 percent of the debtors sampled in this study were homeowners, whereas 72 percent of nonfarm families surveyed in mid-1977 who owed instalment debts were homeowners.[10] Homeownership is a variable frequently found in credit-scoring systems, and the data from this bankruptcy survey support the relevance of that characteristic as a predictor of creditworthiness. In addition, creditors recognize that they are likely to realize very little on unsecured debts in a bankruptcy. Since homeowners can often pledge the equity in their homes, creditors find second mortgages an increasingly attractive form of lending--both because homeowners represent less risk than renters, other things being equal, and because secured creditors will fare better under Chapter 7 than if they were unsecured.

Thus, continuation of a policy that permits consumers to avoid repayable debts will ultimately lead to a two-tiered credit market: one for homeowners and another for nonhomeowners. Relative to consumers in the homeowners market, those in the lower tier will find credit more expensive, less available except through high-priced retailers, and with more onerous terms, such as higher downpayments, shorter maturities, and more frequent demands for cosigners. Many consumers in the legislatively-created lower tier will be perfectly sound credit risks, but will not be sufficiently distinguishable from others in the group for creditors to take a chance in granting them credit on more reasonable terms. These are the consumers who will be most disadvantaged by the policy of permitting others to avoid their debts, regardless of their ability to repay.

IV. Conclusions

This research has addressed the public policy that permits debtors to file for bankruptcy, even though they could repay a reasonable portion of their debts from anticipated future income. The data from an extensive survey of consumer debtors who filed for bankruptcy have been analyzed to respond to three basic questions:

(1) To what extent could the debtors have repaid a portion of their debts from future income?

(2) What wealth transfers were involved?

(3) How are the credit markets affected by the policy?

The data and their analysis support the following conclusions. First, the amount of potentially recoverable Chapter 7 debts has been estimated to be $1.1 billion annually, assuming a five-year payback. These debts would be recoverable from anticipated future income after meeting basic living expenses and actual housing costs. The estimates vary with the payout period and the size of any cushion provided over and above basic living expenses, with the overall range from $0.6 billion to $1.1 billion annually. The incremental amounts recoverable annually as a result of the proposed change in the legislative regimen would be less by the amounts that would have been realized on secured claims under the present legislative regimen. The collection of unsecured debts is especially sensitive to the payback period; the longer the payback period, the larger the proportion of unsecured debts that would be recovered.

Second, 50 percent to 60 percent of Chapter 7 debtors would be unaffected by the change being considered by the U.S. Congress. These consumers are primarily low-income consumers without adequate income above basic living expenses and housing costs to repay a reasonable portion of their debts. In contrast, about 70 percent of the potentially recoverable debts was owed by those debtors who could have repaid all of their nonmortgage debts over a period of no more than five years. These consumers had substantially higher incomes than those with non-affordable debts and to some extent must have received subsidies from less affluent consumers who elected to repay their debts.

The wealth transfers described highlight a very important point. Appraisal of the proposed changes in the legislative regimen should not be cast as a conflict between debtors and consumers. It is not a case of consumers' gains being creditors' losses, and vice versa. The present system involves wealth transfers between one group of consumer and another, with evidence that the subsidy may be regressive--that less affluent consumers are subsidizing more affluent consumers. At issue is whether that is an acceptable characteristic of bankruptcy policy.

Finally, the losses associated with unsecured credit, along with other economic characteristics of the credit markets (such as rate ceilings) is leading to a greater emphasis on secured lending, particularly second mortgage lending. Since only owners of real estate can offer creditors second mortgage, a two-tiered credit market is evolving, with a consequent disadvantage to consumers who do not own their homes.

Since at least 1650 B.C. consumers have from time to time been permitted to set aside their debts, regardless of their ability to pay. Today, consumers are permitted under Chapter 7 to discharge debts that could have been repaid from future income, simply because expected future income is not a consideration in the Chapter 7 proceedings. This research provides empirical evidence to assess both the size of the wealth transfers involved as a result of that public policy and the nature and direction of the subsidies among consumers brought about by that policy.

FOOTNOTES

[1] Earlier estimates of bankruptcy cases were based on an erroneous understanding that the series on which calculations were based excluded Chapter 13 cases. On that basis an annual rate of 315,000 cases were estimated. Elimination of Chapter 13 cases reduces the aggregate number by 27.7 percent.

[2] Figures were calculated to the nearest whole dollar, but rounded to the nearest million for purposes of discussion.

[3] To illustrate, the 44 petitioners who could have repaid 75 percent to 99.9 percent of their debt had average affordable debts of $16,444 (Exhibit 3-8). In total they had $723,536 [44 x 16,444] of affordable nonmortgage and nonbusiness debts. Similar calculations for each of the other groups yields the total of such debts for each group. Summing the totals for each group gives the total affordable nonmortgage, nonbusiness debts for all groups in the sample of $6,394,915.

[4] Testimony of Claude Rice before the Subcommittee on Courts, Senate Committee on the Judiciary, October 29, 1981.

[5] In this analysis it is assumed that most of the costs are borne by taxpayers in one way or another. Since the tax structure is progressive, but the wealth transfer evidently regressive, consumer welfare would under this analysis be improved even if the costs borne by taxpayers equalled the dollar amount of the wealth transfers generated by avoidance of affordable debts.

[6] Research suggests that consumers denied access to cash credit turn instead to sales credit, where the cash price of the goods or services sold may be increased to cover the costs of providing credit. Thus, cash buyers subsidize credit buyers. See Richard L. Peterson and Gregory A. Falls, Impact of a Ten Percent Usury Ceiling: Empirical Evidence, Working Paper 40 (W. Lafayette, Ind.: Credit Research Center, Purdue University, 1981).

[7] David T. Stanley and Marjorie Girth, Bankrutpcy: Problem,Process, and Reform (Washington, D.C.: Brookings Institution, 1971), p. 37.

FOOTNOTES (cont'd)

[8] In mid-1977, 92.5 percent of families with instalment debts (excluding credit-card credit) had incomes of $5,000 or more. The weighted average pretax income in mid-1981 of consumers who could have paid less than 25 percent on their nonmortgage debts was $6,143. Given the inflation over the four years, 1977-1981, it is reasonable to conclude that at the time of the bankruptcy survey at least 90 percent of families with instalment debts had incomes that exceeded the average reported for those petitioners with nonaffordable debts. Data for 1977 are from Thomas A. Durkin and Gregory E. Elliehausen, 1977 Consumer Credit Survey (Washington, D.C.: Federal Reserve System, 1978), p. 94.

[9] The consumer price index, all items, all urban consumers rose 49.5 percent from 1977 to June, 1981. This increase was applied to the income brackets used in the 1977 consumer credit study, thereby raising the brackets from $10,000 - $14,999 to $14,950 - $22,400. If the shape of the income distribution of consumers with debts remained unchanged, but merely shifted upwards with inflation, the data indicate that 25 percent of families with debt fell into lower income brackets in mid-1981. Durkin and Elliehausen, op. cit., p. 94.

[10] Calculated from data tape, Durkin and Elliehausen, op. cit.

APPENDIX A

LETTER SENT TO BANKRUPTCY JUDGES

Arthur D Little Inc [illegible]

March 25, 1981

Dear Judge

We are writing to invite your support and participation in a significant research effort being undertaken by the Credit Research Center at Purdue University, with the cooperation of Arthur D. Little, Inc. and Opinion Research Corporation. The study is sponsored by a group of industry associations representing businesses which extend credit to consumers. The purpose of this study is to construct, for the first time, a profile of the demographic and economic characteristics of individuals entering bankruptcy proceedings under Chapter 7, and to determine the nature and sources of the information they have regarding the process and consequences of the proceedings.

The study requires administering interviews with a scientifically selected sample of individuals in 20 selected districts throughout the country. Your district has been chosen, and its inclusion in the study is of great importance if the highest quality results are to be attained.

We will ask your assistance in bringing the study to the attention of the attorneys appearing before you and requesting that they cooperate by permitting their clients (if chosen for an interview in the study) to participate. It should be stressed that the identity of the individual clients and their attorneys will be masked throughout the study and in all reports. The information will be under our control at all times, and subject to complete confidentiality as indicated in the attached statement.

Attorneys may attend the interviews with their clients if they desire. The interviews will be arranged to be as convenient in time and location as possible for participants. The ideal arrangement, we believe, will be to conduct the interview immediately before or after the 341 Hearing in an adjacent room or office. The interview should not last more than 20 minutes and may be shorter in many cases.

Approximately 60 interviews will be conducted in your district within as short a calendar period as possible. We would like to have all interviews completed by the end of May. The interviews will be administered by professional interviewers from Opinion Research Corporation. The persons to be interviewed will be selected by statistical methods intended to provide a representative sample. The list of questions to be asked during the interview is contained in the interview guide enclosed.

We will also need information from the petitions filed by the persons interviewed. Copies of the petitions will be obtained from the Clerk by the professional interviewer.

When all interviews are complete, the information will be consolidated by Opinion Research Corporation at its headquarters in Princeton, New Jersey. Detailed analysis of the information will be made by the Credit Research Center at Purdue University which will serve as the basis of the final report to be made available to you and other interested parties.

If you have questions about the program or its administration within your district, please call Edwin Cox or Blair Shick at Arthur D. Little, Inc. (617-864-5770).

This is a study of importance to all concerned with the bankruptcy process. We sincerely trust you will cooperate in our efforts to insure that we secure useful results of the highest possible quality. You will be contacted by Ed Cox or Blair Shick to arrange a visit with you and the Clerk in your district to make final plans for conducting the interviews.

Sincerely,

CREDIT RESEARCH CENTER

Dr. Robert Johnson, Director

ARTHUR D. LITTLE, INC.

Dr. Edwin Cox
Blair Shick, Esq.

OPINION RESEARCH CORPORATION
(a subsidiary of Arthur D. Little, Inc.)

Sandra Spies, Vice President

Arthur D Little Inc

THE ECONOMIC IMPACT OF THE BANKRUPTCY CODE

A Research Study by the Credit Research Center, Purdue University

In cooperation with Arthur D. Little, Inc., and Opinion Research Corporation

PURPOSE

The purpose of this study is to obtain and analyze data on Chapter 7 debtors in order to explore the implementation of the new Bankruptcy Code. At this point evidence concerning alleged abuses of the Code is scattered and largely anecdotal. Any proposed revisions to the Code should be based on empirical evidence drawn from an unbiased sample of Chapter 7 bankrupts. Some specific study objectives include: the extent to which Chapter 7 relief was economically justified; the path debtors followed to bankruptcy; and the effects, if any, on consumers of the exemption levels established by the states.

METHODOLOGY

The research will be based upon a sample of approximately 1,200 Chapter 7 debtors at 341 Hearings from 20 district courts in 10 states, one-half from states with high exemptions and the other half from states with low exemptions. With the cooperation of the Bankruptcy Judges, Trustees, and attorneys for the debtors, professional interviewers employed by Opinion Research Corporation will conduct a brief interview with each person at the conclusion of the hearing. In addition a copy of each person's bankruptcy petition will be obtained. Once the data from the interview and petition are merged, the name of the debtor will be removed from the data set, so that further analysis will not be based on any personally identifiable information.

RESPONSIBILITY FOR RESEARCH

The analysis and interpretation of the information gathered during the survey will be the responsibility of the Credit Research Center, Purdue University, in cooperation with Arthur D. Little, Inc., an independent, international research organization. The sampling design, interviewing and compilation of the survey data will be the responsibility of Opinion Research Corporation, a subsidiary of Arthur D. Little, Inc.

Whatever the results, they will be made publicly available through working papers and monographs published by the Credit Research Center.

STATEMENT OF PRIVACY

As required by the Code of Ethics of the American Association for Public Opinion Research, we will maintain the anonymity of our respondents. No information will be released that in any way might reveal the identity of a respondent.

Opinion Research Corporation is regularly involved in meeting privacy requirements in surveys conducted for the Federal Government. Appropriate techniques from the Federal procedures will be used in this survey to protect respondent anonymity.

APPENDIX B

PERSONAL INTERVIEW QUESTIONNAIRE

33852 APR 24 [illegible]
033081
Draft 5

CREDIT STUDY

RESPONDENT'S NAME: ____________________

ADDRESS: ____________________

CITY/STATE: ____________________

DATE: __________ TIME STARTED: __________ TIME ENDED: __________

INTERVIEWER: __________ LENGTH: __________ (MINUTES)

Hello. My name is ______________ of Opinion Research Corporation in Princeton, New Jersey. We have been requested by the Credit Research Center at Purdue University to conduct a nationwide survey on the subject of personal bankruptcy. As part of this survey, we are talking to people who have filed for bankruptcy so that we might better understand their attitudes and opinions. We are conducting this study with the full approval of the Court in which your case (is being) (was) heard. I want to stress that this survey is completely confidential, and that your answers will not be identified with you by name in any way.

A.	Have you already had your hearing today or will you have it after this interview?	1 ALREADY HAD HEARING 2 WILL HAVE HEARING AFTER INTERVIEW

IDENTIFICATION NUMBERS

☐☐ DISTRICT

☐☐ LOCATION

☐☐☐☐☐ RESPONDENT'S PETITION #

JUDGE'S NAME: ____________________ ☐

(HAND EXHIBIT 1)

1a. On this card we've listed several factors that may or may not have led you to consider bankruptcy. Would you please read each item on the list, and tell me the number next to every factor that was important in your decision.

	IMPORTANT	MOST IMPORTANT
Personal Problems		
Medical bills (doctors, hospitals)	1	1
Marital problems (divorce, separation, alimony, child support)	2	2
Natural disasters (such as floods, hurricanes)	3	3
Death in the family	4	4
Addiction or dependency (drugs, alcohol, gambling)	5	5
Employment Problems		
Cutback in the number of hours worked	6	6
Laid off or fired from work	7	7
Your business failed	8	8
Business that employed you failed	9	9
Unable to work due to illness/accident	10	10
Lost second income	11	11
Credit/Financial Problems		
Bought too much on credit	12	12
Credit was too easy to get	13	13
Unable to get creditors to extend loans/ agree to different payment schedule	14	14
Creditors tried to collect their money	15	15
Sued by creditors	16	16
Wages actually garnished	17	17
Some property repossessed	18	18
Cosigned on a loan that wasn't paid	19	19
Cost of living went up	20	20
OTHER(S) (SPECIFY):		
____________________	21	21
____________________	22	22
	x y	x y

1b. Were there any other factors that led you to consider filing for bankruptcy? (RECORD ABOVE.)

IF MORE THAN ONE REASON GIVEN IN Qs.1a-b, ASK:

2. Of all the factors that led you to consider bankruptcy, which one or two were most important to you?

ASK QUESTION 3 FOR ITEM "a," THEN ASK QUESTIONS 4 AND 5. THEN REPEAT QUESTIONS 3 AND 4/5 FOR EACH OF THE OTHER ("b," "c," "d") ITEMS.

3. Before you filed for bankruptcy, had you heard about (READ ITEM)?

IF "YES," ON Q. 3, ASK:

4. Did you try ________________ before you filed for bankruptcy?

IF "NO," ON Q. 4, ASK:

5. Why didn't you try ______________________?

	HEARD OF		TRIED		WHY NOT
	YES	NO	YES	NO	
a. Credit counseling, where a counseler assists you in cutting back expenses and arranging partial payments	1 x	2 y	1 x	2 y	☐ x y
b. Debt consolidation loans, where you take out one loan to pay off all of your creditors and make only one monthly payment	1 x	2 y	1 x	2 y	☐ x y
c. Selling assets, such as property and possessions, to pay debts	1 x	2 y	1 x	2 y	☐ x y
d. Arranging different payment schedules with some or all of your creditors	1 x	2 y	1 x	2 y	☐ x y

6. Where did you get the idea to declare bankruptcy? Was it from someone in particular or was it something you read or heard about? (PROBE: From whom or where did you read/hear about it?)

1 READ ARTICLE OR BOOK
2 ADVERTISEMENT IN NEWSPAPER/MAGAZINE
3 ADVERTISEMENT ON RADIO/TELEVISION
4 LAWYER OR LEGAL AID SERVICE
5 FRIEND/RELATIVE/COWORKER
6 CREDIT COUNSELING SERVICE
7 EMPLOYER
8 OWN IDEA/GENERAL KNOWLEDGE/JUST KNEW
9 OTHER (SPECIFY):________________________________
x y

7. Did you use a lawyer to help you file for bankruptcy?

1 YES
2 NO → SKIP TO Q. 9
x y

IF USED A LAWYER ("1" ON Q. 7), ASK:

8. How did you select your lawyer?

1 HE IS FAMILY LAWYER/USED HIM BEFORE
2 REFERRED BY ANOTHER LAWYER
3 ADVERTISEMENT
4 RECOMMENDED BY FRIEND/RELATIVE/COWORKER
5 FROM THE PHONE BOOK
6 OTHER (SPECIFY): ____________________

____

____

x y

9. Instead of the process you are using, there is an alternative legal process. Under that process you could have repaid all or some of your debts over a period of a few years, while still being protected from your creditors. When you were thinking about filing for bankruptcy, did you hear about this process?

1 YES
2 NO → SKIP TO Q. 12
x y

IF "YES" ("1" ON Q. 9), ASK:

10. What was this process called?

1 CHAPTER 13
2 OTHER (SPECIFY): ____________________
3 DON'T KNOW ____________________
x y

11. Why did you decide not to use this process? (DO NOT READ LIST. PROBE: Were there any other reasons?)

1 ATTORNEY ADVISED AGAINST IT
2 SPOUSE/FRIENDS ADVISED AGAINST IT
3 NOT ENOUGH INCOME/DEBTS TOO HIGH/WOULD HAVE TAKEN TOO LONG
4 TO AVOID PAYING CERTAIN CREDITORS
5 NO PARTICULAR REASON
6 OTHER (SPECIFY): ____________________

____

x y

(HAND EXHIBIT 2)

12. Here is a list of actions which creditors might take against someone who has not met their debt obligation. Would you please read the list and tell me the number of every action taken against you by any of your creditors.

	CREDITORS DID	IMPORTANT
Threaten to repossess your personal property	1	1
Actually repossess your personal property	2	2
Seek to collect an unpaid balance after having repossessed some property	3	3
Threaten to foreclose on your home	4	4
Actually foreclose on your home	5	5
Threaten to garnish your wages	6	6
Actually garnish your wages	7	7
Telephone you frequently at home or work	8	8
Come to see you at home or work	9	9
Send you threatening letters	10	10
Contact a cosigner on a loan	11	11
Contact your employer	12	12
Contact a relative	13	13
OTHER (SPECIFY): ______________________	14	14
NO ACTIONS TAKEN/NONE IMPORTANT	15	15
	x y	x y

IF "YES" TO ANY STATEMENT ABOVE ("1" THRU "12"), ASK:

13. Which of these actions by your creditors were important in your decision to declare bankruptcy?

14a. In talking with other people who have declared bankruptcy we have found some who told us that one of the reasons they declared bankruptcy was not so much to cancel all their debts as it was to avoid one or more specific creditors. Would you say that this situation applies to you?

1 YES
2 NO → SKIP TO Q. 15
x y

IF "YES," ASK:

14b. Which creditors didn't you want to pay?
(DO NOT READ LIST. CIRCLE ALL THAT APPLY.)

1 BANK
2 SAVINGS & LOAN/MORTGAGE CO.
3 CREDIT UNION
4 FINANCE OR LOAN COMPANY
5 RETAILER/DEALER/CONTRACTOR
6 FRIEND/RELATIVE/COSIGNER
7 DOCTOR/HOSPITAL
8 OTHER (SPECIFY): ______________________
x y

14c. What is the total amount that you owe this (those) creditor(s)? (IF DON'T KNOW EXACT AMOUNT, ASK FOR BEST ESTIMATE.)

$ ______________________
0 DON'T KNOW
x y

--6

15. In the six months or so before you filed for bankruptcy, did you make any of the following purchases on credit? (READ LIST)

1 House or mobile home
2 Car or
3 Recreational vehicle or motorcycle
4 Home appliance or furniture costing over $200 per item
5 Jewelry, watch or fur costing over $200 per item
6 Vacation airfare, lodging or meals
7 Investment land or property
8 School tuition
9 NONE OF THESE
x y

15a. Did you use over $200 in credit either to get a cash loan or to make other purchases during the past six months? (IF "YES," ASK: What was it for?)

1 YES (SPECIFY): ____________________
____
2 NO
x y

(HAND EXHIBIT 3)

16. Which of the assets on the list do you plan to keep through provisions of the law, that is, exemptions, that permit you to keep items up to some dollar value? Just read me the numbers, please.

	Exemptions	Reaffirmation
Financial assets	1	1
House or mobile home	2	2
Car	3	3
Truck	4	4
Recreational vehicle or motorcycle	5	5
Furniture or appliances	6	6
Jewelry, watch or furs	7	7
Clothing	8	8
Land or investment property	9	9
Any others? (SPECIFY): __________ ____________________	10	10
NONE	11	11
DON'T KNOW	12	12
	x y	x y

17. And which do you plan to keep by agreeing to make payments after bankruptcy is final, sometimes called reaffirmation of the debt?

18. Are there any other creditors you plan to repay? (IF "YES, ASK: Which type of creditors?)

1 NO/NONE
2 BANK
3 SAVINGS & LOAN/MORTGAGE CO.
4 CREDIT UNION
5 FINANCE OR LOAN CO.
6 RETAILER/DEALER/CONTRACTOR
7 RELATIVE/FRIEND/COWORKER
8 DOCTOR/HOSPITAL
9 OTHER (SPECIFY): __________
____
x y

19. Which of the assets on this list do you expect to lose by filing for bankruptcy? Just read me the numbers please.

1 Financial assets

2 House or mobile home
3 Car
4 Truck
5 Recreational vehicle or motorcycle
6 Furniture or appliances
7 Jewelry, watch or furs
8 Clothing
9 Land or investment property
10 Any others? (SPECIFY):__________
11 NONE
12 DON'T KNOW
x y

IF FINANCIAL ASSETS LOST ("1" ON Q. 19),

20. Now, just think about the financial assests you expect to lose, that is, any bank accounts, stocks, bonds, or other financial investments. About how much money do you estimate you will lose? (IF NOT SURE, ASK FOR BEST ESTIMATE.)

$__________
0 DON'T KNOW
x y

IF ANY TYPE OF ASSETS LOST OTHER THAN FINANCIAL ("2-10" ON Q. 19), ASK:

21. Now, think just about personal property you expect to lose, that is, such things as (NAME ITEMS 2-10 CIRCLED in Q. 19). About how much do you think you could get for these goods if you sold them, rather than lost them through bankruptcy? (IF NOT SURE, ASK FOR BEST ESTIMATE.)

$__________
0 DON'T KNOW
x y

22. Compared to your credit situation before you filed for bankruptcy, do you think it will be more difficult or less difficult for you to get credit in the future from each of the following types of creditors?

	MORE DIFFICULT	LESS DIFFICULT	NO CHANGE/ SAME AS BEFORE	DON'T KNOW
Bank	1	2	3	4
Savings & Loan or Mortgage Company	1	2	3	4
Credit Union	1	2	3	4
Finance or Loan Company	1	2	3	4
Retailer, Dealer, or Contractor	1	2	3	4
Friends, Family, or Coworkers	1	2	3	4
Doctor or Hospital	1	2	3	4
Other (Specify):__________	1	2	3	4
__________	1	2	3	4

23. How did you learn about getting credit in the future? Who or what was your source of information?

1 READ ARTICLE OR BOOK
2 ADVERTISEMENT IN NEWSPAPER/MAGAZINE
3 ADVERTISEMENT ON RADIO/TELEVISION
4 LAWYER OR LEGAL AID SERVICE
5 FRIEND/RELATIVE/COWORKER
6 CREDIT COUNSELING SERVICE
7 OWN IDEA/GENERAL KNOWLEDGE/JUST KNEW
8 OTHER (SPECIFY):__________
x y

24. As you probably know, there are credit bureaus which keep track of people's credit experience. Do you think their credit report will show a record of your bankruptcy?

1 YES
2 NO
3 DON'T KNOW
x y
→ SKIP TO Q. 26

IF YES ("1" ON Q. 24), ASK:

25. For how many years will a record of your bankruptcy be on your credit record?

______ YEARS
0 DON'T KNOW
x y

26. Do you know whether or not it would be legal for you to ever file for bankruptcy again?

1 YES
2 NO
3 DON'T KNOW
x y
→ SKIP TO Q. 29

IF YES ("1" ON Q. 26), ASK:

27. How many years from now could you file for bankruptcy again?

______ YEARS
0 DON'T KNOW
x y

28. Would you ever again consider bankruptcy as a solution to your financial problems?

1 YES
2 NO
3 DON'T EXPECT ANY MORE PROBLEMS
4 DON'T INTEND TO LET THIS HAPPEN AGAIN
x y

(HAND EXHIBIT 4)

29. Which number in the first category on this card best describes your current marital status?

1 MARRIED
2 SEPARATED
3 DIVORCED
4 LIVING AS MARRIED
5 SINGLE-NEVER MARRIED
6 WIDOWED
x y

→ SKIP TO Q. 32

IF "1" OR "2" ON Q. 29, ASK:

30. Did you file for bankruptcy for yourself individually, or did you file jointly with your spouse?

1 INDIVIDUALLY
2 JOINTLY → SKIP TO Q. 32
x y

IF FILED "INDIVIDUALLY," ASK:

31a. Did your spouse also file for bankruptcy on (his)(her) own?

1 YES
2 NO → SKIP TO Q. 32
x y

IF "YES," ASK:

31b. Why did (he)(she) file for bankruptcy separately rather than with you in a joint petition?

x y

31c. When and where did (he)(she) file for bankruptcy? (IF DON'T KNOW EXACT DATE, PROBE FOR YEAR AND APPROXIMATE MONTH)

DATE:____________________ MONTH:________________ YEAR:________

CITY:______________________________ STATE:________________

0 DON'T KNOW x y

32. Have you (or your [former] spouse) ever filed for bankruptcy before? (PROBE: Was it you, your spouse, or both of you jointly?)

1 NEVER FILED BEFORE
2 RESPONDENT FILED INDIVIDUALLY
3 SPOUSE FILED INDIVIDUALLY
4 FILED JOINTLY
5 RESPONDENT FILED JOINTLY WITH FORMER SPOUSE
6 SPOUSE FILED JOINTLY WITH FORMER SPOUSE
x y

IF "MARRIED" OR "SEPARTED" ("1" OR "2" ON Q. 29), ASK QUESTIONS 33-38 FOR BOTH HUSBAND AND WIFE. ALL OTHERS, ASK EACH QUESTION JUST FOR RESPONDENT. RECORD RESPONSES BY SEX.

(HAND EXHIBIT 4)

33. Which number in the middle category on this card contains your (your spouse's) age? Just read me the number, please.

	MALE	FEMALE
Under 25	1	1
25-34	2	2
35-44	3	3
45-54	4	4
65 or older	5	5
	x y	x y

34. And which number in the last category of this card describes the level of schooling that you (your spouse) completed?

	MALE	FEMALE
Did not finish high school	1	1
High school graduate	2	2
Training or vocational school	3	3
Attended college courses	4	4
College graduate	5	5
Advanced college degree	6	6
	x y	x y

35. Are you (Is your spouse) now employed, either full- or part-time?

	MALE	FEMALE
Employed Full-Time	1	1
Employed Part-Time	2	2
Not Employed	3	3
	x y	x y

IF RESPONDENT (OR SPOUSE) EMPLOYED, ASK:

35a. What type of work do you (does your spouse) do?

MALE: ______________________________ x y ☐

FEMALE: ______________________________ x y ☐

35b. Do you (Does your spouse) have a second job?

MALE:	1 YES	2 NO	x	y
FEMALE:	1 YES	2 NO	x	y

IF RESPONDENT (OR SPOUSE) NOT EMPLOYED, ASK:

(HAND EXHIBIT 5)

36. Which of the reasons listed on this card describes why you aren't (your spouse isn't) working? Just read me the number.

	MALE	FEMALE
Student	1	1
Retired	2	2
Permanently disabled	3	3
Homemaker/care of children	4	4
Laid off/unable to find work	5	5
On strike	6	6
On sick leave	7	7
My business failed	8	8
Employer's business failed	9	9
OTHER REASON (SPECIFY):	0	0
______________________________		
______________________________		
	x y	x y

37. How many months out of the past 12 have you (has your spouse) been employed, either full- or part-time?

	MALE	FEMALE
# OF MONTHS:	____	____
	x y	x y

38. Are you (Is your spouse) a member of a credit union?

	MALE	FEMALE
YES	1	1
NO	2	2
	x y	x y

39. How many people, including yourself and any others, are dependent on you for their principal means of support? This is the number of exemptions you report on your Federal income tax form.

# OF DEPENDENTS: ______________ x y

IF MORE THAN JUST RESPONDENT, ASK:

39a. Which of the following are dependent on you for their principal means of support?

1 Spouse
2 Children under 6 years of age (Specify how many:__________)
3 Children age 6-12 (Specify how many:__________)
4 Children age 13-17 (Specify how many:__________)
5 Children over age 17 (Specify how many:__________)
6 Parent (Specify how many:__________)
7 Other (Specify relationship:__________and number:__________)
x y

40. Do you own or rent the dwelling in which [illegible]?

1 OWN → SKIP TO Q. 42
2 RENT
3 NEITHER (LIVE WITH PARENT/ OTHER RENT-FREE) → SKIP TO Q. 43

IF "RENT," ASK:

41. How much do you pay in rent per month?

$________
x y

41a. Does your monthly rent include some or all of your utilities, that is, electricity, gas, oil, water, and telephone?

1 ALL UTILITIES INCLUDED → SKIP TO Q. 43
2 SOME UTILITIES INCLUDED
3 NO UTILITIES INCLUDED
x y

IF "SOME/NO UTILITIES INCLUDED", ASK:

41b. Over and above what is included in your rent payment, about how much do you pay directly for utilities per month? (IF NOT SURE, ASK FOR BEST ESTIMATE. IF CAN'T SPECIFY PER MONTH, ASK FOR BEST ESTIMATE OF TOTAL COST FOR LAST YEAR.)

$________PER MONTH
OR
$________LAST YEAR

0 DON'T KNOW
x y

→ SKIP TO Q. 43

IF "OWN" (#1" ON Q. 40), ASK:

42. What is your total monthly mortgage payment? (IF NOT SURE, ASK FOR BEST ESTIMATE)

$________
x y

42a. Does your monthly mortgage payment include your . . .?

	INCLUDE YES	INCLUDE NO		DON'T KNOW		
a. Property tax	1	2	$________PER YEAR	0	x	y
b. Homeowner's insurance	1	2	$________PER YEAR	0	x	y
c. All utilities, that is, electricity, gas, oil, water, & telephone	1	2	$________PER MONTH OR $________LAST YEAR	0	x	y

FOR EACH ITEM NOT INCLUDED IN MORTGAGE, ASK:

42b. About how much do you pay . . .?

(a) Per year for property tax?
(b) Per year for homeowner's insurance?
(c) Per month for any utilities not included in your mortgage? (IF NOT SURE, ASK FOR BEST ESTIMATE. IF CAN'T GIVE MONTHLY COST, ASK FOR BEST ESTIMATE OF TOTAL COST FOR LAST YEAR)

43. Which, if any, of the following expenses do you usually have each month?

MONTHLY EXPENSES		AVERAGE MONTHLY PAYMENT	DON'T KNOW		
Alimony	1	$	0	x	y
Child support	2	$	0	x	y
Child care because you (or your spouse) work	3	$	0	x	y
Regular treatment of a long-term or chronic ailment	4	$	0	x	y
Life or medical insurance	5	$	0	x	y
Any other regular monthly payments (SPECIFY):			0	x	y
______________	6	$	0	x	y
______________	7	$	0	x	y
______________	8	$	0	x	y
NONE	9 → SKIP TO Q. 45a				

FOR EACH MONTHLY EXPENSE, ASK:

44. What is your average monthly payment for ______________?

45a. Have you received any food stamps in the past month?

1 YES

2 NO → SKIP TO Q. 46

x y

IF "YES", ASK:

45b. What was the total value of the food stamps you received last month?

$______________

0 DON'T KNOW

x y

46. How much was your family's total income last month from nontaxable sources, such as social security, child support payments, unemployment or workmen's compensation, and welfare? (IF RESPONDENT IS NOT SURE, ASK FOR BEST ESTIMATE.)

$______________

0 NONE

9 DON'T KNOW

x y

47. And, how much was your total family income before taxes from all taxable sources last month? (IF RESPONDENT IS NOT SURE, ASK FOR BEST ESTIMATE.)

$______________

0 NONE

9 DON'T KNOW

x y

48. By December of this year, how likely is it that your total monthly income from all sources will be higher or lower than it was last month? Would you say that it will definitely be higher, probably be higher, probably be lower, definitely be lower, or will it be about the same?

1 DEFINITELY HIGHER
2 PROBABLY HIGHER
3 PROBABLY LOWER
4 DEFINITELY LOWER
5 ABOUT THE SAME
6 DON'T KNOW
x y

IF "HIGHER" OR "LOWER" ON Q. 48, ASK:

49. Do you expect that (increase) (decrease) will be 10% or less or will it be over 10%?

1 10% OR LESS
2 OVER 10%
3 DON'T KNOW
x y

INTERVIEWER: HAND THE CREDIT REPORT RELEASE FORM TO RESPONDENT(S) AND ASK HIM/HER/THEM TO READ IT AND THEN TO FILL IN THE REQUESTED INFORMATION AND SIGN HIS/HER/THEIR NAME(S).

Thank you very much for your time and cooperation.

RECORD THE FOLLOWING:

RESPONDENT'S SEX: 1 MALE 2 FEMALE

RESPONDENT'S RACE: 1 WHITE 2 BLACK 3 HISPANIC 4 OTHER

WILL RELEASE CREDIT REPORT: 1 YES 2 NO x y

ATTORNEY ATTENDED THE INTERVIEW: 1 YES 2 NO

INTERVIEWER: ON A SCALE OF "1" to "5", HOW WOULD YOU DESCRIBE HOW OPEN AND COOPERATIVE THIS RESPONDENT WAS DURING THE INTERVIEW?

VERY OPEN/ VERY COOPERATIVE	1	2	3	4	5	NOT AT ALL OPEN/ VERY UNCOOPERATIVE

INTERVIEWER: ATTACH RESPONDENT'S CREDIT REPORT RELEASE FORM AND A COPY OF HIS/HER BANKRUPTCY PETITION (WHICH YOU MUST OBTAIN FROM THE CLERK OR XEROX) TO THIS QUESTIONNAIRE.

EXHIBIT 1

Personal Problems

1 Medical bills (doctors, hospitals)
2 Marital problems (divorce, separation, alimony, child support)
3 Natural disasters (such as floods, hurricanes)
4 Death in the family
5 Addiction or dependency (drugs, alcohol, gambling)

Employment Problems

6 Cutback in the number of hours worked
7 Laid off or fired from work
8 Your business failed
9 Business that employed you failed
10 Unable to work due to illness/accident
11 Lost second income

Credit/Financial Problems

12 Bought too much on credit
13 Credit was too easy to get
14 Unable to get creditors to extend loans/ agree to different payment schedule
15 Creditors tried to collect their money
16 Sued by creditors
17 Wages actually garnished
18 Some property repossessed
19 Cosigned on a loan that wasn't paid
20 Cost of living went up
21 Anything else? (PLEASE SPECIFY)

EXHIBIT 2

1 Threaten to repossess your personal property

2 Actually repossess your personal property

3 Seek to collect an unpaid balance after having repossessed some property

4 Threaten to foreclose on your home

5 Actually foreclose on your home

6 Threaten to garnish your wages

7 Actually garnish your wages

8 Telephone you frequently at home or work

9 Come to see you at home or work

10 Send you threatening letters

11 Contact a cosigner on a loan

12 Contact your employer

13 Contact a relative

14 Anything else? (PLEASE SPECIFY)

EXHIBIT 3

1 Financial assets (bank accounts, stocks, bonds, CD's)

2 House or mobile home

3 Car

4 Truck

5 Recreational vehicle or motorcycle

6 Furniture or appliances

7 Jewelry, watch, or furs

8 Clothing

9 Land or investment property

10 Any Others? (PLEASE SPECIFY)

EXHIBIT 4

MARITAL STATUS	1	MARRIED
	2	SEPARATED
	3	DIVORCED
	4	LIVING AS MARRIED
	5	SINGLE-NEVER MARRIED
	6	WIDOWED
AGE	1	Under 25
	2	25-34
	3	35-44
	4	45-54
	5	55-64
	6	65 or older
EDUCATION	1	Did not finish high school
	2	High school graduate
	3	Training or vocational school
	4	Attended college courses
	5	College graduate
	6	Advanced college degree

EXHIBIT 5

1 Student
2 Retired
3 Permanently disabled
4 Homemaker/care of children
5 Laid off/unable to find work
6 On strike
7 On sick leave
8 My business failed
9 Employer's business failed
10 OTHER (PLEASE SPECIFY)

AUTHORIZATION FOR CREDIT REPORT

I/We, the undersigned, have voluntarily participated in an interview as part of a study of personal bankruptcy conducted by the Credit Research Center of Purdue University.

By signing this paper, I/we authorize the credit reporting agency (credit bureau) in my/our area to provide the Credit Research Center with my/our credit report(s) applicable to the time of my/our filing for bankruptcy.

This authorization is for the sole purpose of the bankruptcy study. My/Our understanding is that our name and address will be removed from the credit report and any data used in the study will be treated anonymously.

PLEASE PRINT:

YOUR FULL NAME: ____________________

YOUR SOCIAL SECURITY NUMBER: ____________________

IF MARRIED:

YOUR SPOUSE'S NAME: ____________________

YOUR SPOUSE'S SOCIAL SECURITY NUMBER: ____________________

ADDRESS: ____________________

CITY: ____________ STATE: ____________ ZIP CODE: ________

IF YOU HAVE LIVED AT THE ABOVE ADDRESS LESS THAN ONE YEAR, PLEASE FILL IN YOUR FORMER ADDRESS:

FORMER ADDRESS: ____________________

CITY: ____________ STATE: ____________ ZIP CODE: ________

PLEASE SIGN:

YOUR SIGNATURE: ____________________

SPOUSE'S SIGNATURE: ____________________

DATE: ____________________

APPENDIX C

DATA RECORDED FROM CHAPTER 7 PETITION

33852

CREDIT STUDY

PETITION DATA SHEET

1 Petition Data of Debtor Interviewed **Before** Hearing
2 Petition Data of Debtor Interviewed **After** Hearing
→ Yellow Form

3 Petition Data of Debtor Who Refused Interview
→ Blue Form

COVER SHEET(S)

1. Respondent's Petition # (use last 5 numbers): __ __ __ __ __
(Also called bankruptcy, docket, file, proceeding, or case number)

2. Debtor (petitioner) is: 1 Individual 2 Husband/wife jointly

(Cover sheet may indicate "Individual" or "Joint" Petition or there will be boxes next to the words "individual" and "husband and wife as joint individuals" and the appropriate one will be checked to indicate an individual or joint petition)

3. Debtor's name and social security number (include both parties if joint petition):

Male: ______________________ Social Security #: ______________

Female: ______________________ Social Security #: ______________

4. Zip Code (of most recent address): __ __ __ __ __ __

5. Date filed (or executed on): ____/____/____
(Stamped or written in, Month Date Year

STATEMENT PURSUANT TO RULE 219b OR DISCLOSURE OF COMPENSATION PAID OR PROMISED TO ATTORNEY

6. Legal services used: 1 Yes 2 No

(No "Rule 219b Statement" attached to petition implies no legal services used. Circle "2" and go on to #7.)

If Legal Services Used:

a. Total fee (paid and promised/due): $ ____________ 0 NR

b. Attorney's Name: ______________________

Address: ______________________

STATEMENT OF FINANCIAL AFFAIRS

7. Specify which form used (heading across top of page or top right corner)

1 Statement of Financial Affairs for Debtor Not Engaged in Business → SKIP TO #12

2 Statement of Financial Affairs For Debtor Engaged in Business → GO TO #8

Debtor Engaged In Business ("2" circled on #7)

8. Prior bankruptcy (probably item #7)	1 One or more prior bankruptcies listed 2 No other bankruptcies listed			
9. Suits, executions, and attachments (probably item 12) Property attached, garnished, or seized (probably "c" in this section)		1 Yes	2 No	3 NR
10. Transfer of property (probably item 14)				
(1) Made one or more unusual gifts in year prior to bankruptcy (probably "a" in this section)		1 Yes	2 No	3 NR
(2) Made other transfer(s) (probably "b" in this section)		1 Yes	2 No	3 NR
11. Repossessions and returns (probably item #13) Any property returned to/repossessed by seller during year preceding bankruptcy		1 Yes	2 No	3 NR

→ SKIP TO #17

Debtor Not Engaged In Business ("1" Circled On #7)

12. Occupation and Income
(Probably item #2)

		Total	RECORD HERE ALSO IF JOINT PETITION AND AMOUNTS SPECIFIED FOR BOTH PARTIES Male	Female
(1) Income from trade and profession (probably "d" in this Section)				
	1980	\$______ 0 None X NR	\$______ 0 None X NR	\$______ 0 None X NR
	1979	\$______ 0 None X NR	\$______ 0 None X NR	\$______ 0 None X NR
(2) Income from other sources (probably "e" in this Section)				
	1980	\$______ 0 None X NR	\$______ 0 None X NR	\$______ 0 None X NR
	1979	\$______ 0 None X NR	\$______ 0 None X NR	\$______ 0 None X NR

13. Prior bankruptcy
(probably item #7)
1 One or more prior bankruptcies listed
2 No other bankruptcies listed

14. Suits, executions, and attachments
(probably item #10)
Property attached, garnished, or seized (probably "c" in this section) 1 Yes 2 No 3 NR

15. Transfer of property
(probably item #12)
(1) Made one or more unusual gifts in year prior to bankruptcy (probably "a" in this section) 1 Yes 2 No 3 NR
(2) Made other transfer(s) (probably "b" in this section) 1 Yes 2 No 3 NR

16. Repossessions and returns
(probably item #13)
Any property returned to/repossessed by seller during year [illegible] 1 Yes 2 No 3 NR

GO ON TO #17

SCHEDULE A-2 CREDITORS HOLDING SECURITY

(Schedule A-2 is sometimes listed as a separate section or page. If so, include the requested information for all items in this section. Add up the "Market Value" and the "Amount of Claim" of all items listed (if no "totals" are shown) and record each of these totals in the spaces below.

If Schedules A-2 and A-3 are listed together, include below only those items checked as "secured." Include the totals only for the secured items.)

17. Total market value of all (secured) items listed $__________

18. Total claims of all (secured) items listed $__________

19. FOR EACH ITEM/TYPE OF SECURITY LISTED IN SCHEDULE A-2, SPECIFY:

ITEM/TYPE OF SECURITY	WHEN INCURRED MONTH/YEAR	MARKET VALUE	AMOUNT OF CLAIM
1 House (1st/only mortgage)# 0 No house listed	____/____ 0 NR	$______ 0 NR	$______ 0 NR
2 Same house (2nd mortgage) 0 No second mortgage	________ 0 NR	$______ 0 NR	$______ 0 NR

FOR ALL OTHER ITEMS LISTED IN SCHEDULE A-2, FILL IN GENERAL DESCRIPTION (E.G., CAR, BOAT, FURNITURE) IN THE SPACE BELOW AND COMPLETE THE REST OF THE INFORMATION:

3 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
4 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
5 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
6 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
7 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
8 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR
9 __________	____/____ 0 NR	$______ 0 NR	$______ 0 NR

#(If there is more than one mortgage (creditor and claim) on the same house and no distinction is made [illegible] first or second mortgage, assume that the first mortgage is the older (earlier date on when incurred) one. If no dates are given, assume that the larger amount is the "first" mortgage.

#19 (Continued) Schedule A-2

ITEM/TYPE OF SECURITY		WHEN INCURRED	MARKET VALUE	AMOUNT OF CLAIM
10	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
11	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
12	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
13	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
14	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
15	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
16	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
17	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
18	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
19	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
20	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
21	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
22	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
23	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
24	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
25	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR
26	____________	____/____ 0 NR	$____________ 0 NR	$____________ 0 NR

SCHEDULE A-3 CREDITORS HAVING UNSECURED CLAIMS WITHOUT PRIORITY

(If Schedule A-3 is listed as a separate section or page, include the requested information for all items included in this section. Add up the "Amount of Claim" of all items listed (if no "total" is shown) and record the total in the space below. (Note: Page may be called "Listing of Creditors.")

If Schedule A-3 is listed with Schedule A-2, include below only those items checked as "unsecured." Include the total only for the unsecured items.

20. Total claims of all (unsecured) items listed $ ____________

CREDITOR CODES:

1 Bank
2 Savings & Loan or Mortgage Company
3 Credit Union
4 Finance or Loan Company
5 Retailer (Store)
6 Dealer or Contractor
7 Doctor or Hospital
8 Friend or Relative or Co-worker
9 Other/Not Sure of Type (SPECIFY NAME IN SPACE)

21. FOR EACH CREDITOR LISTED IN SCHEDULE A-3, CIRCLE APPROPRIATE CREDITOR CODE AND FILL IN AMOUNT OF CLAIM

CREDITOR CODE AMOUNT OF CLAIM

#1 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#2 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#3 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#4 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#5 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#6 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#7 1 2 3 4 5 6 7 8 9 (SPECIFY BELOW) $ ____________

____

#21 (Continued) Schedule A-3

	CREDITOR CODE	AMOUNT OF CLAIM
#8	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#9	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#10	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#11	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#12	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#13	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#14	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#15	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#16	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#17	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______
#18	1 2 3 4 5 6 7 8 9 (SPECIFY BELOW)	$ ______

SCHEDULE B-1 REAL PROPERTY

22. Market value of each house listed:

$ ________ $ ________ $ ________

0 No house(s) listed

EXEMPTION ELECTION (Located Between Schedules B-3 and B-4)

23. The debtor(s) elects to . . . exempt(ions) pursuant to (Circle item(s) checked)

1 Federal Exemption 11 U.S.C. 522 3 Both
2 State Exemption (laws of the State ________) 4 NR

SCHEDULE B-4 PROPERTY CLAIMED AS EXEMPT

24. Value claimed exempt -- total $ ________
(If no total amount is shown, add up the value claimed exempt for each item listed in B-4) 0 NONE X NR

SUMMARY OF DEBTS AND PROPERTY

25. A-2 Secured claims $ ________ 0 NONE

26. A-3 Unsecured claims without priority $ ________ 0 NONE

27. Schedule A Total $ ________ 0 NONE

28. B-1 Real property (total value) $ ________ 0 NONE

29. Schedule B Total $ ________ 0 NONE

30. Does Schedule B Total include item listings for B-1, B-2, B-3 and B-4 or isn't the B-4 item included in (above) the Schedule B Total line?
1 B-4 Is included in total
2 B-4 Is not included

PUBLICATIONS
CREDIT RESEARCH CENTER

MONOGRAPH No. 1: An Empirical Analysis of Retail Revolving Credit

MONOGRAPH No. 2: Credit Policies and Store Locations in Arkansas Border Cities: Merchant Reactions to a Ten Percent Finance Charge Ceiling

MONOGRAPH No. 3: Research Topics in Mortgage Markets: Proceedings of a Seminar

MONOGRAPH No. 4: An Economic Report on Consumer Lending in Texas

MONOGRAPH No. 5: Mortgage Banking 1963 to 1972: A Financial Intermediary in Transition

MONOGRAPH No. 6: A Thesaurus of Terms in Mortgage and Consumer Credit

MONOGRAPH No. 7: A Bibliography of Consumer Financial Services and Regulation

MONOGRAPH No. 8: A Compilation of Federal and State Laws Regulating Consumer Financial Services

MONOGRAPH No. 10: The Impact of Regulation on the Provision of Consumer Financial Services by Depository Institutions: Research Backgrounds and Needs

MONOGRAPH No. 12: Cost/Benefit Analysis of Creditors' Remedies

MONOGRAPH No. 13: Consumer Perception of Credit Insurance on Retail Purchases

MONOGRAPH No. 14: An Economic Analysis of the "Due On Sale" Clause in the California Mortgage Market

MONOGRAPH No. 15: Credit Unions: CRC 1979 Creditors Survey

MONOGRAPH No. 16: Savings and Loan Associations: CRC 1979 Creditors Survey

MONOGRAPH No. 17: Commercial Banks: CRC 1979 Creditors Survey

MONOGRAPH No. 18: Consumer Finance Companies: CRC 1979 Creditors Survey

MONOGRAPH No. 19: Retailers: CRC 1979 Creditors Survey

MONOGRAPH No. 20: Sales Finance Companies: CRC 1979 Creditors Survey

MONOGRAPH No. 21: Consumer Financial Data Sources

MONOGRAPH No. 22: CRC 1979 Consumer Financial Survey

WORKING PAPER No. 1: The Use of Department Store Revolving Credit: Account Use Patterns, Customer Profitability, the Value of Revolving Credit, and the Probable Incidence of Credit Rationing

WORKING PAPER No. 2: EFTS and Consumer Credit (Revised)

WORKING PAPER No. 3: The Impact of General Credit Restraint on Consumer Instalment Credit Flows

WORKING PAPER No. 4: The Effect of Alternative Billing Methods Upon Retail Revolving Credit Yields

WORKING PAPER No. 5: Delinquency Rates on Consumer and Mortgage Debt: Their Determinants and Impact

WORKING PAPER No. 6: Determinants of Commercial Bank Automobile Loan Rates

WORKING PAPER No. 7: Personal Loan Cash Flows at Finance Companies

WORKING PAPER No. 8: Discrimination on the Basis of Sex Under the Equal Credit Opportunity Act

WORKING PAPER No. 9: Competition Between Banks and Finance Companies: A Cross Section Study of Personal Loan Debtors

WORKING PAPER No. 10: Regulatory Influences on Commercial Bank Personal Loan Rates

WORKING PAPER No. 11: Commercial Bank Consumer Loan Refinancings

WORKING PAPER No. 12: The Impact of Restricted Creditors' Remedies on Automobile Finance Companies in Wisconsin

WORKING PAPER No. 13: Changes in Finance Personal Loan Policies Following Enactment of the Wisconsin Consumer Act

WORKING PAPER No. 14: Creditor Remedy Restrictions and Interstate Differences in Personal Loan Rates and Availability: A Supplementary Analysis

WORKING PAPER No. 15: The Impact of Creditors' Remedies on Consumer Loan Charges

WORKING PAPER No. 16: Cost/Benefit Analysis of Minimum Charges on Revolving Credit Accounts

WORKING PAPER No. 17: Occupational and Employment Variations in Commercial Bank Consumer Credit Risk

WORKING PAPER No. 18: Problems in Applying Discriminant Analysis in Credit Scoring Models

WORKING PAPER No. 19: Testing for Sex Discrimination in Commercial Bank Consumer Lending

WORKING PAPER No. 20: Banks' Lending Response to Restricted Creditor Remedies

WORKING PAPER No. 21: Bank and Retail Credit Card Yields Under Alternative Assessment Methods

WORKING PAPER No. 22: An Economic Analysis of Electronic Funds Transfer System: The Theory of Credit Markets

WORKING PAPER No. 24: The Community Re-investment Act of 1977: Its Legislative History and Its Impact on Applications for Changes in Structure Made by Depository Institutions to the Four Federal Financial Supervisory Agencies

WORKING PAPER No. 25: Junior Mortgage Financing and Other Borrowing Against Inflated Housing Equity

WORKING PAPER No. 26: Consumer Perceptions of Credit Bureaus

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WORKING PAPER No. 33: Second Mortgage Survey, 1979

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WORKING PAPER No. 36: Evidence of the Effect of Restrictive Loan Rate Ceilings on Prices of Consumer Financial Services

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REPRINT No. 3: William C. Dunkelberg and Robert H. Smiley, "Subsidies in the Use of Revolving Credit," *Money, Credit, and Banking*, November 1975

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REPRINT No. 14: Robert W. Johnson, "Economic Effects of Graduated Rate Ceilings on Revolving Credit," *Journal of Retail Banking,* Vol. II, No. 1, March 1980.

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